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Section III Section IV

# FINANCIAL TIMES

Europe's Business Newspaper

MONDAY NOVEMBER 23 1992

D8523A

## Yeltsin nears deal to defuse attack from opposition

A deal to defuse an attack on the Russian government and chart a course of heavily modified reform is near agreement between President Boris Yeltsin and leaders of the centrist opposition. The government would retain much of its reform team while industrialists would secure their chief demand of slower economic change. **Page 14**

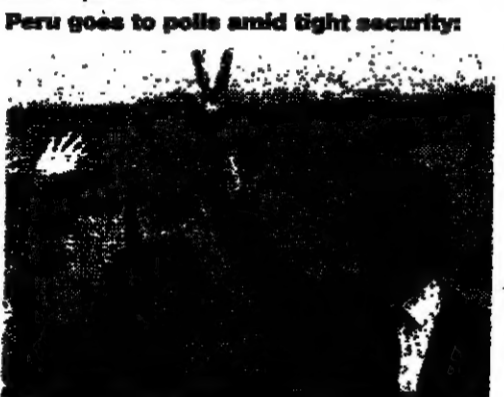
**UN blockade begins** Western warships began enforcing a UN trade embargo on Montenegro and Serbia in an attempt to stop the war in Bosnia. The task force is authorised to use force to stop any ship suspected of smuggling goods banned by the UN resolution. **Page 7**

**Tornadoes leave many dead** At least 16 people were killed and more than 200 injured in Mississippi, Tennessee and Alabama after a series of tornadoes and thunderstorms ripped across the southern US early yesterday. The death toll exceeded that of Hurricane Andrew.

**WestWest Bancorp.** US subsidiary of National Westminster Bank, is likely to make an after-tax profit of more than \$130m this year, its highest to date, according to its chairman. **Page 15**

**ANC threat to stop talks** The African National Congress has threatened to break off constitutional talks with the South African government unless a date for interim government elections is set next week. **Page 7**

**Peru goes to polls amid tight security.**



Polling stations were under heavy military guard and security around Lima was tight as 11m Peruvians went to the polls yesterday. The elections are for a "democratic constituent congress" to replace the two-chamber parliament dissolved on April 5 by President Alberto Fujimori (pictured above with his wife). The congress, which will write a new constitution, is expected to satisfy international demands for a return to formal democracy. **Page 7**

**GPA Group**, aircraft leasing company, will today ask banks to change the covenants in its borrowing agreements so that they are cash-flow related, rather than linked to equity and profits. **Page 15**

**Lebanon 'ready to fight'** As Lebanon celebrated its independence day, the government said the country was ready to fight to rid south Lebanon of Israeli forces if Middle East peace talks could not secure a withdrawal.

**Olympia & York's efforts** to keep its US operations out of bankruptcy protection are again being threatened by creditors, as Swiss Bank Corporation extended until tonight a deadline for O&Y to pay \$5m. **Page 15**

**Norwegian bank rescues Norway** is today expected to announce details of a recapitalisation package for its three biggest banks, after it emerged at the weekend that the ordinary share capital of Den norske Bank had been wiped out. **Page 17**

**Turkey presses to join EC** Turkish leader Suleyman Demirel will press for Turkey's membership of the EC in London today during talks with UK prime minister John Major and European Commission president Jacques Delors. **Page 7**

**Hungary offered military spares** Germany will give Hungary free military spares from the former East German army, despite concerns that this might fuel tension in eastern Europe. **Page 6**

**Mercedes-Benz**, automotive subsidiary of Daimler-Benz, said it had excess stocks of around 35,000 cars worldwide. **Page 17**

**Iraq pessimistic on sanctions** Iraq said it was not pinning much hope on a mission by deputy prime minister Tariq Aziz to ask the UN Security Council to ease or lift sanctions in force since soon after its invasion of Kuwait in 1990.

**Korea Electric Power**, largest capitalised company on the Seoul bourse, lifted its ban on foreign shareholders who will now be able to acquire up to 8 per cent of Kepco shares. **Page 17**

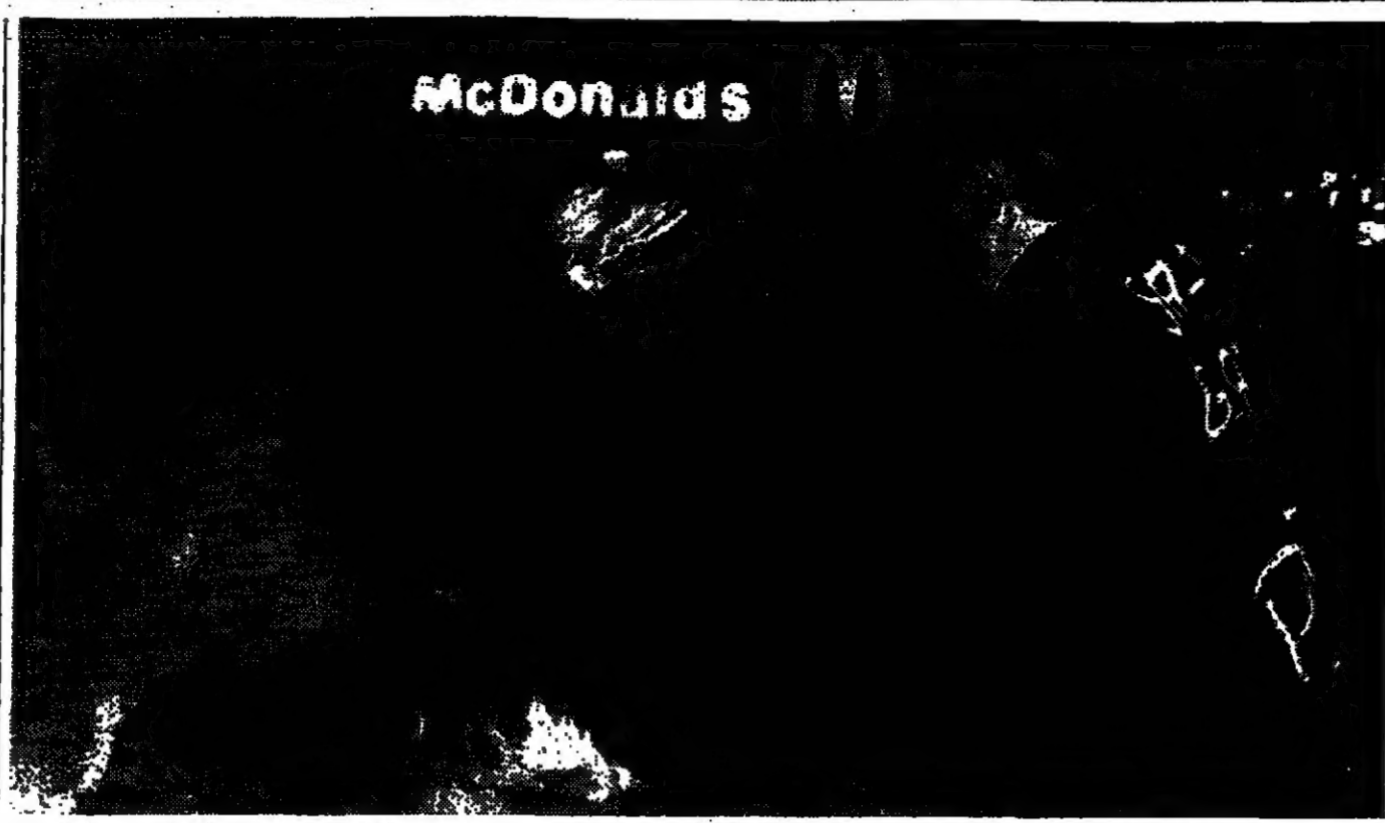
**German extremists clash** A Berlin squatter was stabbed to death in weekend clashes between neo-Nazis and extreme leftists. There were further incidents across eastern Germany.

**Unilever**, Anglo-Dutch food and consumer product group, is to inject \$237m (£13m) into Lipton India, to raise its stake to 51 per cent from its present 40 per cent holding. **Page 17**

**Rhône-Poulenc**, French chemicals group, reported a fall in net income days before details of the sale of the state's 10.6 per cent stake in the company are announced. The sale will raise between FF35bn and FF40bn (\$550m-\$740m). **Page 15**

**Waste Management International** has bought 75 per cent of Environment Service SA, for FF235m (\$44m). Environment Service provides solid waste collection and disposal and industrial cleaning services. **Page 16**

Austria	Sch20	Greece	D250	Lat	LT100	Col	CR1200
Bahrain	Br1200	Hungary	Fl100	Mal	Mal150	E Arab	SR11
Belgium	Br200	India	Rs100	Morocco	MD100	Singapore	S\$110
Bulgaria	LV100	Indonesia	Rp1000	Nigeria	Naira20	Sweden	Sk14
Cyprus	CY100	Israel	Sh100	Norway	Nkr100	Switzerland	Sfr100
Czech	Cz100	Japan	Y100	Oman	OMR100	Syria	Syr100
Denmark	Dk100	Korea	W100	Philippines	Php100	Taiwan	T\$100
Egypt	Eg100	Lebanon	Lb100	Poland	PLN100	Turkey	TL100
Finland	Fm100	Malawi	Mk100	Portugal	Esc100	UAE	AED100
France	FF100	Kenya	Sh100	Spain	Pes100		
Germany	DM100	Libya	LD100				



French farmers in Lille protest about the farm trade agreement reached between the US and Europe by starting a fire outside a restaurant

## Brussels hopeful over trade deal

By Our Foreign Staff

SENIOR European Commission officials were confident at the weekend that there was enough political momentum behind last Friday's EC-US farm trade deal to overcome French attempts to block it.

The agreement, which settled long-running disputes over subsidised food exports and opens the way to concluding the six-year old Uruguay Round negotiations on liberalising world trade, has overwhelming support inside the EC, officials said. This view was endorsed in London, where the fierce French opposition has done little to dent optimism that the way is now open for a conclusion of the Uruguay round.

Meanwhile, the French government this weekend came under intense political pressure to reject the deal as angry French farmers threatened to step up their protests against the agree-

ment. These will culminate in a nationwide day of action on Wednesday and will be aggravated by other strikes and stoppages planned by workers on the Paris subway, French railways and Air France, the state-owned airline.

The beleaguered government is not expected to take a final decision on the farming agreement until a debate in the National Assembly on Wednesday. Mr Pierre Bérégovoy, the prime minister, has criticised the deal as "unacceptable", and claims it contravenes last May's reform of the EC's Common Agricultural Policy (CAP).

But Mr Ray MacSharry, the EC agriculture commissioner, says "we have no difficulty

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## Third realignment of ERM in 10 weeks triggers concern in financial markets Spain and Portugal devalue by 6%

By Our Economics and Foreign Staff

SPAIN and Portugal devalued their currencies in the European exchange rate mechanism early yesterday but the agreement triggered concern in financial markets over whether this third realignment in 10 weeks would prove durable.

After meeting for 10 hours in Brussels, the European Community's monetary committee announced that the Spanish peseta and Portuguese escudo had been devalued against the other six currencies in the ERM by 6 per cent.

The monetary committee statement also said Spain would lift the special capital controls imposed during the currency turmoil of September to protect the peseta after its 5 per cent devaluation that month.

But while officials leaving the meeting in the early hours yesterday expressed confidence that the latest currency changes would put an end to turmoil in the European Monetary System, foreign exchange market analysts and economists in London were virtually unanimous in predicting further troubles ahead.

The weekend negotiations - which came after Madrid requested a peseta devaluation late on Friday - were marked by

- Text of Monetary Committee statement **Page 2**
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tension between the Spanish and Portuguese officials in the committee because Portugal was reluctant to devalue its currency.

The final agreement left the Irish punt and Danish krone unchanged against the D-Mark, in spite of speculation against both currencies last week. Neither Italy nor Britain, which took their currencies out of the ERM in September, applied to rejoin the system. There was also no sign that the German Bundesbank would be willing to lower its interest rates in support of the latest realignment.

On Friday, Mr Helmut Schlesinger, the Bundesbank president, warned that there was minimal room for a cut in German interest rates. Early yesterday, Mr Hans Tietmeyer, the Bundesbank vice-president, gave no indication that the German central bank would change its policy. On leaving the meeting, he said only that Germany would do what it felt was "appropriate". When asked

### Ten weeks of turmoil in the ERM



whether an interest rate cut would be appropriate, he answered "no comment".

Finance ministries throughout Europe joined in hailing the latest realignment as a success. The French finance ministry said the move suggested that the autumn currency crisis was over and that "our difficulties are behind us".

Mr Thor Pedersen, Danish economy minister, said it "should prevent currency speculation" and "bring calm". Mr Bertie Ahern, Irish finance minister, said he was "well pleased" that

the punt was unchanged and that the outcome was "a recognition of the strength of the economic fundamentals in Ireland".

But the limited nature of the weekend realignment fuelled expectations that the Irish punt and Danish krone could again become the target of speculative attack. Ireland's problem of a loss

of competitiveness since the floating of sterling in September has been compounded by political uncertainty ahead of its general election on Wednesday.

There was some discomfort in Spain, the initiator of the changes. Mr Carlos Solchaga, finance minister, said Spain would have preferred to wait for

the Italian lira to re-enter the system, but had acted to devalue the peseta when there was no sign that this would happen.

From Madrid, it was reported last night that the Spanish government was nervously awaiting market reaction, fearful that any further speculative attacks on the currency might force it out of the ERM completely.

It was also clear that Portugal had only agreed to a 6 per cent fall in the value of the escudo in the ERM with the greatest reluctance. "We did not need any devaluation," Mr Anibal Cavaco Silva, the Portuguese prime minister, said.

Portugal claims its economic fundamentals are sound but as it transacts more than 20 per cent of its trade with Spain it could not allow a second peseta devaluation in two months to widen the gap between the two currencies. The monetary committee statement sought to bolster the peseta by stressing that Spain would give the highest priority to meeting its budgetary targets and implementing structural reforms laid down in its economic convergence programme.

## Irish punt, Danish krone seen as targets for selling

By Peter Norman, Economics Editor, in London

THE weekend realignment of currencies in the European exchange rate mechanism met with a negative response from currency analysts and economists who forecast increased tensions on the foreign exchange markets in the days ahead.

The Irish punt and the Danish krone were singled out as candidates for renewed attack after the six per cent devaluations of the Spanish peseta and Portuguese escudo were criticised as "too little, too late". Analysts said that outside the ERM, they expected speculative selling of the Norwegian krone.

"What we have is a piecemeal realignment. It spells the death knell of the ERM," said Mr Paul Chertkow, head of global currency research at Union Bank of Switzerland in London. "It isn't big enough and it doesn't involve enough currencies," said Mr Jim O'Neill, Swiss Bank Corporation's London-based head of research. "The markets will think: 'OK, those have gone, which will we go for now?'"

"There is a week of turbulence ahead," predicted Mr Gerry Holtham, chief economist of Lehman Brothers International in London. "The main problem concerns the Irish punt, which is very vulnerable. But the markets could also attack the Danish krone and if that goes, the French franc will come under pressure," he added.

The apparent reluctance of the Bundesbank to agree to any easing of its monetary policy in connection with the peseta and escudo devaluations was seen as an especially weak feature of the third ERM realignment in 10 weeks. "The disappointment is likely to be all the greater this time around as there is no promise of a cut in the Bundesbank's key lending rates in return for the realignment," said Mr Mike Gallagher, director of economic research at IDEA, which researches and forecasts financial market trends.

Indeed, for many analysts, a close reading of the communiqué issued by the EC monetary committee early yesterday appeared to confirm the Bundesbank's determination not to adjust its monetary policy to save the

ERM. "Member states whose currencies are in the exchange rate mechanism will implement their economic and monetary policies in such a way as to improve their convergence on price stability and ensure the stability of their currencies within the parity grid," the statement said.

"That doesn't amount to a declaration of mutual support," argued one specialist in international monetary affairs. "If the statement had referred to ensuring the stability of the parity grid, it would have imposed obligations on the Bundesbank. As it stands, it will be up to the weaker currency countries to raise interest rates if necessary to keep their currencies in line with the Deutsche-mark."

According to Mr Chertkow of UBS, the markets were likely to question whether Ireland, Denmark or France would have the stomach to raise interest rates to maintain parity with the D-mark.

Some analysts said France's objection to the trans-Atlantic deal on farm trade was already prompting some international investors to reappraise its commitment to the European Community.

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## NEWS: THE ERM REALIGNMENT

# Bundesbank under new rates pressure

By Christopher Parkes  
in Frankfurt

MR Björn Engholm, the German Social Democrat opposition leader, is expected to press Chancellor Helmut Kohl at a meeting today to influence the Bundesbank to ease its rigorous interest rates policy.

As trade union leaders argued at a similar session last week, he will say the central bank's stance is killing jobs in western Germany and smothering investment prospects in the east.

The talks, called to draft a "solidarity pact" among all parties, employers and unions to help recovery in the former GDR, are set to become crucial to Bundesbank's deliberations. Whatever the strength of the politicians' arguments - supported by a rising wave of job cuts, forecasts of nil economic growth in the west and downgraded expectations in the east next year - the Frankfurt policy-makers are unlikely to back off just yet.

Unflinchingly dedicated to monetary stability, the bank has its eyes fixed on two key

indicators which dictate policy: inflation and money supply growth.

The depleted band of optimists still expecting German rate cuts this year may draw hope from inflation figures due later this week. Some economists expect a shift down from October's 3.7 per cent annual rate in the west to perhaps 3.5 per cent. But as others point out, any fall will be a technical illusion, resulting from factors which pushed rates up 0.5 per cent 12 months ago dropping out of the calculation.

Although producer price rises are now below 1 per cent year-on-year and import prices in October were down 5 per cent on a year ago, there is still considerable underlying inflationary pressure which the bank wants to squeeze out.

This stems mainly from increases in rents and services of around 6 per cent. Housing shortages have been one influence, but the main source is the undimmed pressure of high labour costs.

More trouble looms: a one-point increase in VAT to 15 per cent in January is expected to

push the overall rate of price increase firmly back above 4 per cent.

Money supply growth, fuelled by demand for credit to ease personal and corporate cash-flow problems, is running at 9.3 per cent, far beyond the bank's upper 5.5 per cent target for annualised expansion in the broad M3 measure.

Now that the economic squeeze has migrated into Germany, domestic political pressure for rate cuts will grow. But the Bundesbank is determined that Mr Kohl, Mr Engholm, unions and employers should come to accept its view of what is "right" for Germany.

The government has promised to cut public spending and attack its soaring deficit. Unions have hinted at restraining their pay demands, and employers have again said they will stand firm in the coming wages round. But the Bundesbank will need evidence more robust than tips and winks before it is convinced that the enemy inflation is in full flight and feels able to relax its grip on the interest rates leash.

## Devaluation of peseta and escudo raises fresh doubts about monetary union

# Realignment blurs view of Emu

By Lionel Barber in Brussels

THE ROAD to European Monetary Union (Emu) is paved with good intentions. But after the latest realignment inside the Exchange Rate Mechanism - the third in just over two months - doubts about the feasibility of the Emu enterprise seem certain to grow.

In Brussels yesterday, EC officials portrayed the weekend devaluations of the Spanish and Portuguese currencies as a logical response to currency market pressures aimed at enhancing stability within the European Monetary System (EMS).

But stability has come at a price. Rather than signalling progress toward a common European currency for the Twelve, the latest realignment underlines the division of Europe into two tiers, with the prosperous upper half built around a D-Mark zone to which

France is clinging doggedly with its "franc fort" policy.

Germany's reluctance to lower interest rates during the 10-hour-long weekend meeting of the European monetary committee not only suggests continuing tensions within the ERM, it is also a statement about the balance of power inside the EC.

This time, there was no repeat of the deal last September when Bonn traded a 0.25 per cent cut in the Lombard rate for a 7 per cent devaluation of the lira. Having had its arm twisted by the politicians two months ago, Germany's central bank was in no mood to undergo similar treatment again last weekend.

When bi-eyed European monetary officials produced a communiqué early on Sunday, they nevertheless chose to emphasise that progress toward the goal of Emu set out in the Maastricht treaty remains on track.

Hence the reaffirmation of the need for ERM members to improve convergence on price stability, and the commitment of the Spanish and Portuguese governments to "convergence programmes" aimed at matching the best performers in the Community on inflation, deficits and government debt.

Yet at this moment, pressure is building in Brussels and other EC capitals for a more flexible approach. Officials, including Mr Jacques Delors, European Commission president, are worried that the convergence programmes' built-in tendency toward deflation may have to be adjusted during the current recession.

Without abandoning the long-term goal of convergence, or diluting the criteria required for the final locking of exchange rates by the best EC performers, Mr Delors is leaning toward policies which would stimulate short-term growth - a significant shift in

thinking from the more rigid approach adopted in the late 1980s, when growth was strong and the fresh push towards Emu began.

The two chief ideas circulating in Brussels are the creation of a European Investment Fund to lend money for new infrastructure projects, particularly road and communication links with eastern Europe, and a burst of Community lending for public works programmes, financed through up to Ecu5bn (Pfn) borrowing on the international capital markets.

EC officials stress that the growth package would involve new borrowing rather than new national government spending, which in turn would, it is hoped, stimulate fresh private sector lending. But they are nervous about inflating expectations.

EC finance ministers will hear more about the planned growth initiative when they

gather in Brussels today. With Mr John Major, UK prime minister, apparently offering guarded support, there is a reasonable chance of a debate - but no decisions - on a growth package taking place at the EC summit in Edinburgh.

Equally, ministers will hope to make progress on the Delors II package for increasing the EC budget by almost one third over the next five or seven years, an increase which Mr Delors argues is essential if the poorer EC members are to retain the incentive to take the harsh economic measures necessary to qualify for monetary union.

The trick is to avoid the mistake of the late 1970s, when a Community-led growth effort stoked inflation, says one EC official. This is uppermost in Germany's mind as it ponders its role as paymaster of Europe and its decision at Maastricht to sacrifice the D-Mark for a common European currency.

## Text of committee statement

The following is the text of a statement issued by the European Community's monetary committee on the devaluation of the Spanish peseta and the Portuguese escudo:

The ministers and central bank governors of the Member States of the European Community have by mutual agreement following a common procedure involving the Commission and after consultation with the Monetary Committee decided to fix new central rates in the EMS.

The bilateral central rates of the Spanish peseta and the Portuguese escudo against the other currencies of the exchange rate mechanism have

been reduced by 6 per cent. The new Ecu central rates are the following (in units of national currencies per Ecu).

Belgian franc	40.3394
Danish crown	7.461410
D-Mark	1.936262
peseta	166.6386
French franc	6.559574
Irish punt	0.787564
Luxembourg franc	40.3394
Dutch guilder	2.203710
escudo	166.6386
"lira"	1,936.262
sterling	0.787564
drachma	254.254

(\* Notional central rates, based on market rates of 20 November).

The Spanish and Portuguese governments will implement strictly all the measures necessary to ensure that the objectives of their convergence programmes are achieved. The Spanish government will immediately lift the special measures on some foreign exchange transactions which it

recently imposed. It will give the highest priority to meeting the budgetary targets and implementing the structural measures laid down in the convergence programme. The ministers and governors draw the attention of the two governments to the vital importance of restraint on the growth of labour costs. Member states whose currencies are in the exchange rate mechanism will implement economic and monetary policies in such a way as to improve their convergence on price stability and ensure the stability of their currencies within the parity grid.

The agrimonetary consequences of the present realignment will be examined by the competent bodies.

The new bilateral central rates and the compulsory intervention points in the exchange rate mechanism will be communicated by the central banks in time for the opening of foreign exchange markets on 23 November 1992.

## Danes welcome currency moves

DANISH Economy Minister Thor Pedersen welcomed the weekend's devaluation of the Spanish and Portuguese currencies within the Exchange Rate Mechanism (ERM) yesterday and said it would have little effect on Denmark. Reuter reports from Copenhagen.

"The move will only have a marginal effect on the Danish economy, as only 3 per cent of our foreign trade involves these countries," Mr Pedersen said.

"It is satisfactory that the devaluations were so small and that the adjustments within ERM were so limited," he said.

"This should prevent currency speculation. I welcome the ERM realignment as it will bring calm to the EC currency situation."

In Stockholm, Swedish central bank governor Bengt Dennis said the devaluation of the



A police officer (left) guards German finance state secretary Horst Köhler as he arrives for the EC monetary committee meeting

two currencies would not have any great effect on Sweden.

"They are relatively small trading partners so it will not have any major effects for Sweden," Mr Dennis told the TT news agency.

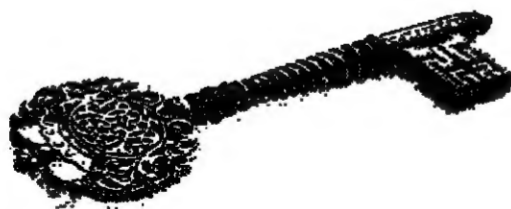
Sweden said on Thursday it would float its crown against other currencies, saying the

fight against currency speculators had proved too hard.

"There is no doubt that our decision on a floating exchange rate contributed to the devalu-

ations. It released a very strong reaction in the European currencies. Many currencies came under pressure then," Mr Dennis said.

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## Reluctant Portuguese devalue too

By Peter Bruce in Madrid and Peter Wise in Lisbon

THE PORTUGUESE do not have much time for their big, deficit-ridden neighbour on the Iberian peninsula. But Lisbon has never been able to do much about the fact that Spain is now their biggest export market, consuming about 30 per cent of what Portugal has to sell abroad.

This weekend Portugal paid dearly for that, as a nervous Madrid asked the European Community's monetary committee to devalue the peseta 6 per cent in the exchange rate mechanism of the European Monetary System. Portugal, its exporters already squeezed by a 5 per cent devaluation of the peseta during the EC currency crisis in September, had little choice but to let the escudo fall 6 per cent as well to maintain the status quo.

It has left a bitter aftertaste with Portugal's Prime Minister, Mr Anibal Cavaco Silva. "We did not need any devaluation," he said yesterday. "The escudo survived without any problems the foreign exchange crisis on Friday."

But the peseta did not. The Bank of Spain spent \$3bn (£1.9bn) supporting the currency last week after the Swedish government's attempt to shadow the ERM failed - at a reported cost to the Swedish central bank of around \$25bn - last Thursday. Spain's finance minister, Mr Carlos Solchaga, calculated that he had precious little time to act before speculators turned again on the peseta.

The lessons of September still burn fiercely in Madrid. "Solchaga didn't want to be put in a situation where he was throwing foreign reserves away to defend an overvalued currency," said Mr Jaime de Pinies, head of research at Banco Santander de Negocios yesterday. "The Swedish failure must have scared the daylight out of the Bank of Spain."

Indeed, while Spain still has foreign reserves of around \$53bn, Mr Solchaga has contributed to further speculative pressure by suggesting for two months that he would allow a further devaluation of the Spanish currency as part of a wider realignment, probably when Italy decided to place the lire back into the ERM.

As it turned out, he could not wait. The government faces elections in the next 11 months and a sharp fall in GDP growth (to under 1 per cent in the third quarter), constant skirmishing with the unions and polls showing the ruling Socialist party vote dropping sharply. A second peseta crisis could have seriously undermined domestic and foreign confidence.

Analysts in Madrid were at

least applauding the government for agreeing to follow the devaluation with an immediate withdrawal of a series of capital controls imposed in September and designed to dissuade speculation. They stopped the peseta falling through its ERM floor but also angered investors attracted to Spain after it scrapped all exchange controls earlier this year.

But with the artificial peseta floor provided by the controls removed, Madrid is anxiously waiting to see what the markets do to the currency today and tomorrow. Will a further 6 per cent prove to have been enough? Government officials and Mr Solchaga said they believed it would.

But the problem, says Mr De Pinies, is that "there is no meaningful wage moderation in this country. Wage rises are still coming in at around 8.5 per cent and if you devalue in this kind of environment you are saying you are doing so just to stay level and might need another one later."

The inflationary effects of the weekend devaluation are hard to judge, but some analysts were yesterday predicting possible interest rate rises to dissuade employers from using a cheaper peseta simply to boost exports while the domestic economy cools and to stop concentrating on slowing wage growth.

The government has always said industry could no longer rely on competitive devaluations to get it out of trouble at

"We did not need devaluation. The escudo survived the crisis without problems"

home, but the effect of the devaluations in September and this weekend may be to do just that. Spain stood firm for 10 years, following devaluations in 1959, 1967, 1976, 1977 and 1982. But including the two devaluations, the peseta has fallen about 15 per cent against the D-Mark since the summer.

Madrid's only guarantee of keeping inflation in check now - following a welcome fall last month to 5.2 per cent - is to stick firmly to the tight fiscal and deficit cutting targets in the 1993 budget, but many doubt it can do so in an election year, when spending normally rises.

Portugal has been much more virtuous, fiscally, than Spain, which will only add to irritation in the Lisbon government. Portugal has almost full employment (Spain has 18 per cent unemployment) and the Portuguese finance minister, Mr Jorge Braga de Macedo, was only last week boasting that devaluations were "proof of the inability of governments to conceive of and execute a credible policy programme". Portuguese officials had even been suggesting that by not following the peseta down, the country might be able to diversify its trade and end dependence on Spain.

Lisbon will be particularly irritated by the message the escudo devaluation will send to exporting employers, as the government is setting a tough 4.5-5.5 per cent target in public-sector wage talks, which act as a guideline to the private industry.

But Portuguese exporters welcomed the escudo's fall, saying they still hoped for more. And Mr Victor Constanco, a Socialist opposition economist, said: "After failing to accompany the September devaluation of the peseta, Portugal could no longer refuse to follow the depreciation of the weaker southern currencies without losing credibility."

Perhaps, but it hurts in Lisbon nevertheless.

## ERM move puts pressure on punt — and Reynolds

THE IRISH government, which faces a general election in two days, will continue to defend the punt even if it means putting up interest rates again, the government said yesterday.

Ireland stood by the punt's value in the central band of the ERM as the Spanish and Portuguese currencies were devalued at the weekend.

The government would defend its currency within the central band of the ERM at the cost of higher interest rates in the short term, the Finance Ministry said, but "sustained high interest rates would be unbearable" in the longer term. This would "undermine the good fundamentals of the economy which have sustained the punt until now".

The government denied coming under pressure from German and French officials to allow the punt to join the realignment. The ministry described the reports as "speculative loose talk" but added: "It is anybody's guess whether the [currency market] raiders will return. The continuing instability within the system is a cause for worry."

The government faces a renewed run on Ireland's reserves if the punt comes under further pressure today.

Since sterling abandoned the ERM last September, there has been a question mark over the punt. Around 30 per cent of Ireland's exports go to the UK, and 40 per cent of its imports are sourced there. The government increased interest rates by 2 percent

Dublin pledges to defend the currency, reports Tim Coone

age points in September and it has created a £50m (\$55m) fund to assist Irish companies adversely affected by sterling's devaluation.

A number of Irish economists predict that interest rates could rise by a further two points this week, bringing the Central Bank's short-term facility rate to a record 15.75 per cent. Inflation is expected to be only 2 per cent this year.

Maintenance of a strong currency, linked to the D-Mark, has been the central plank of the government's economic policy, which has until now enjoyed cross-party support, over the past five years. It is a policy which has also received the backing of the Confederation of Irish Industry and the trade unions, although individual industrialists who have suffered most from sterling's fall and the high interest rates have begun to raise their voices in favour of a devaluation.

Should interest rates now be forced higher still, those voices will become a clamour, and could cost Prime Minister Albert Reynolds' Fianna Fail party votes in the election, especially from mortgage holders.

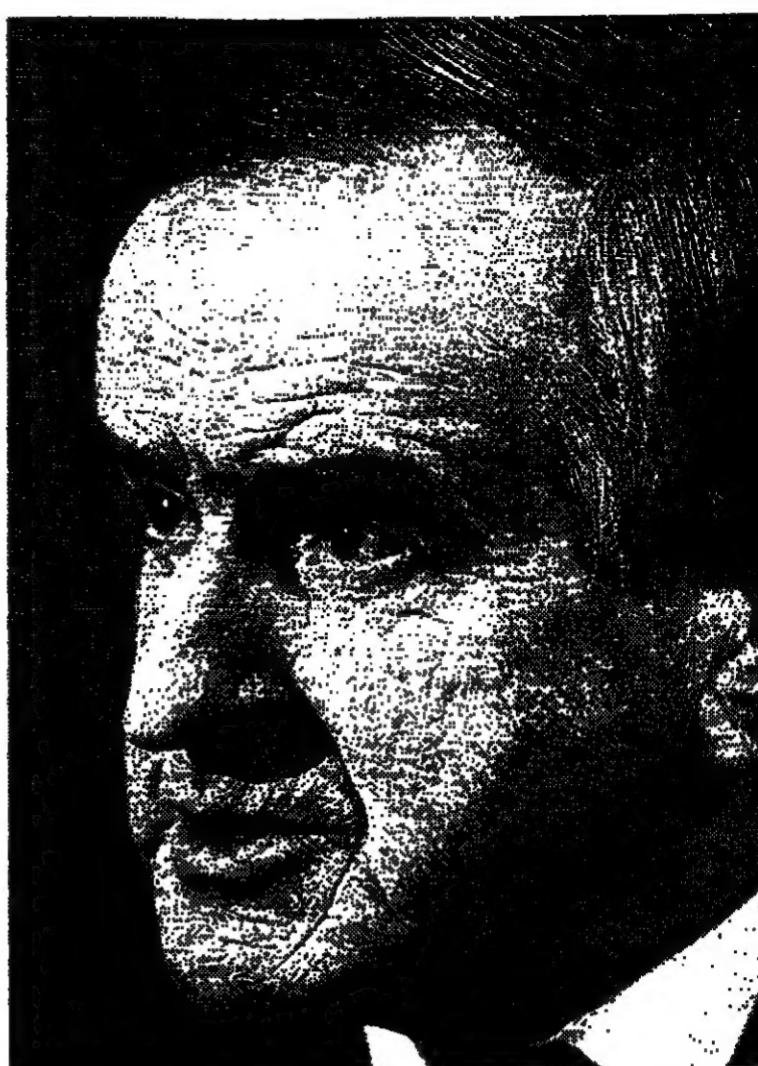
Nonetheless, abandonment of that policy on the eve of a general election would be seen as politically damaging, particularly as opinion polls already indicate that Fianna Fail will suffer a setback and that the Labour party is likely to emerge greatly strengthened and hold the balance of power in the new parliament.

Mr Ruari Quinn, the Labour party's economy spokesman, said yesterday: "The problem is being created by the high German interest rates, but the Bundesbank is clearly not going to change its policy and bring them down." He was in favour of "an orderly realignment" of ERM currencies involving the French franc as well as the punt.

"It is not that we want to devalue. The problem is that the punt is being revalued upwards with the D-Mark, which is now functioning as a European reserve currency," he said.

Last September, the Irish central bank borrowed over £1bn from other EC central banks to defend the punt after sterling left the ERM, and is estimated to have spent an additional £700m in reserves. In September overseas investors also sold an estimated £500m in Irish gilts of a £4bn total held by them, forcing the government to reverse its policy of capping the foreign debt at £28.5bn.

A key factor which saved the punt though, was Ireland's remaining exchange controls, which are due to be dismantled by the end of the year.



Albert Reynolds: facing setback in election

Picture: Ashley Ashwood

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## French ponder farm agreement rejection

By Alice Rawsthorn in Paris

THE French government this week faces a critical decision as to whether to carry out its threat of rejecting the agricultural trade deal struck on Friday night between the European Community and the US in the face of bitter opposition from French farmers.

The government is expected to delay taking a final decision until after a National Assembly debate on Wednesday, the same day that France's farmers plans to stage nationwide protests against the proposed agreement. Meanwhile French officials will today start trying to hammer out a compromise at a meeting in Brussels before the European Commission meets on Wednesday.

If France accepts the draft agreement the unpopular Socialist government, desperately trying to win back public approval in the four months before next year's general elections, would almost certainly face stormy protests from the farm lobby.

However, if France rejected the agreement it would not only risk triggering a trade war with the US but also finding itself isolated within the increasingly fragmented EC in the throes of this autumn's currency crisis and the acrimonious debate over the ratification of the Maastricht treaty.

Last night Prime Minister Pierre Bérégovoy, speaking on French television, said Friday's draft agreement was "unacceptable" and said it would involve a reduction in export under circumstances that would be intolerable for the agricultural economy. He said he hoped to secure the agreement of other EC member states to block the proposals and it would only be after Wednesday's meeting "that we will know whether France is isolated".

Mr Bérégovoy appeared to be pinning his hopes of averting a domestic political crisis on wringing a last-minute compromise from the EC by stressing that France was chiefly concerned about the incompatibility between Friday's deal and last May's reform of the EC's Common Agricultural Policy (CAP). The concern here is that production cuts under the US/EC compromise might be more than those already agreed under the CAP reform.

Mr Bérégovoy has urged the EC to analyse whether the deal would contravene the CAP.

The right-wing opposition has attempted to exploit the government's embarrassment. Mr François Bayrou, general secretary of the UDF, one of the largest opposition parties, said he "supported" the government's opposition to the deal but criticised its handling of the negotiations.

The opposition may abstain from Wednesday's National Assembly debate thereby ensuring that the Socialists take full responsibility for the consequences.

Meanwhile there were angry protests outside government buildings in Reims, Lille and Meurthe as French farmers started their protests against the US-EC deal.



President François Mitterrand (above) has suffered a fall in public approval due to the controversy over France's unpopular new anti-smoking laws and the involvement of senior socialist politicians in the AIDS blood scandal, writes Alice Rawsthorn in Paris.

The French president's approval rating has slipped from 31 per cent to 29 per cent over the past month, according to an IFOP opinion poll published in yesterday's *Journal du Dimanche* newspaper. This means Mr Mitterrand has returned to the low level of approval that haunted him this time last year.

## Onus now on Brussels to square deal with CAP

LAST Friday's settlement of the subsidised food export disputes between the European Community and the US produced a collective sigh of relief. Now, all eyes are on France.

French ministers say they will resist a deal they insist amounts to a cave-in to US ambitions to dominate international food markets. They are demanding that the European Commission, which clinched the agreement on behalf of the 12, demonstrate that the EC's new international obligations are compatible with this year's reform of the Common Agricultural Policy (CAP).

They are adamant that this is not the case, so the debate on "compatibility" is set to be fierce, backed up by strong pressure from France's farmers and parliament and the threat of a French veto. But France has been playing uphill for at least six weeks. And there is little sign its partners are prepared to accommodate Paris to the extent of putting a Uruguay Round deal under the General Agreement on Tariffs and Trade in jeopardy.

To begin with, the deal Mr Ray MacSharry, the EC agriculture commissioner, brought back from Washington, is on certain points close to France's maximalist demands. Mr MacSharry is aggressively confident in his achievement and will not be shy about telling France that, in the end, it was the Americans who caved in.

On Thursday night, with an agreement all but reached, Mr Ed Madigan, the US agriculture secretary, pulled back, for the third time in five weeks, in the face of intense lobbying from American farm organisations. This time, senior EC officials say, Mr MacSharry gave the US until today to reply, or the outline agreement would be withdrawn. He flew back to Brussels and, within 12 hours,

President George Bush had overruled Mr Madigan and the deal was finally done.

France has complained that the EC was negotiating with a gun to its head: the punitive sanctions Washington had threatened for December 5. In the event, Mr MacSharry gave the US an earlier deadline and got away with it. Mr Jacques Delors, the French Commission president whom he had accused of undermining the

area limit identical to the 5.12m hectares envisaged by CAP reform; obligatory set-aside, moreover is 10 per cent, below the 15 per cent set by CAP reform. And with a dispensation to grow oilseeds for non-food use, France will still insist that the 21 per cent cut in subsidised food exports in the deal cannot be met, product by product.

But French officials were already shifting their argument towards "rebalancing" – demanding US agreement to restrain their own cereals subsidies coming in to the EC as *quid pro quo* for cuts in EC export volume. The US has only agreed to monitor any "surges" in exports of products like corn-gluten. Nevertheless, EC officials say, the French guns may be spiked because the "rebalancing" wording was drafted by Germany which has failed to support Paris in the last three weeks.

The momentum behind the deal is likely to increase until the December 11-12 summit of EC heads of government in Edinburgh – only after which farm ministers will reassemble. Unless, of course, France is serious about using its "veto". Legally, France can be vetoed on the package. But the veto in question is the so-called "Luxembourg compromise". It can be invoked when "very important interests" of a member state are at stake.

But even French officials admit that using the "Luxembourg compromise" would be equivalent to using France's nuclear *force de frappe* – a deterrent whose only efficacy is if it is not used. Majority feeling in Brussels is that President François Mitterrand will not risk the further, already crisis-ridden stage of integration foreshadowed by the Maastricht treaty by pressing this sort of veto now.

## US keeps a low profile on Paris opposition

By Nancy Dunne in Washington

US OFFICIALS are keeping a low profile and making no public statements about the disarray within the European Community over last week's farm trade reform deal.

Mr Carlos Rios, the US trade representative, and Mr Ed Madigan, the US agriculture secretary, were asked about French opposition on Friday when they briefed the press.

The response was to point to the approval by the European Commission as if the deal were now done. It has been their view that the Commission had obstructed progress in the past on

instructions from French president François Mitterrand, passed through EC president Jacques Delors.

Privately, officials regard the French response as a manoeuvre to obtain a better deal within the Community's reform of its Common Agriculture Policy (CAP).

US officials are already looking forward to a return to the negotiating table in Geneva and an early conclusion to the wider Uruguay Round talks under the aegis of the General Agreement on Tariffs and Trade (GATT).

The hope is that major political decisions can be concluded by Christmas.

After that, the tremendous amount of detailed work to be done is expected to take weeks if not months.

Inevitably, the Bush administration will run out of time. President Bush has vowed to negotiate until January 20, the day governor Clinton is inaugurated. The president-elect has said nothing to discourage this final burst of activity by his predecessor.

A senior US official said Mr Clinton had "pulled the rug out" from under French efforts to delay agreement by saying after his election: "There's only one president at a time."

Specifically he said he wanted a good GATT agreement as soon as possible, and

that he said he would study the details of the farm trade pact reached last week.

The GATT talks, unlike the North American Free Trade Agreement linking the US, Canada and Mexico, never became a campaign issue, and they have had the support of leading Democrats in Congress.

Senator Lloyd Benson, the chairman of the Senate finance committee has been mentioned as a possible member of the Clinton cabinet.

Last week he flew to Brussels to urge a speedy end to the farm trade dispute and a return to the negotiating table.

## Squeezing the new European single market for all its worth

Haig Simonian tells how an Italian company with fruit juice operations based in Verona expanded by developing a plant near Berlin



WITH a father called Karl and a daughter by the name of Andrea, Mr Oswald Zuegg – until 1918 Austrian by nationality – hardly fits the bill as Italy's biggest maker of jams and fruit juices. The family business has been involved in fruit-growing since 1895.

But in the fruit-growing valleys of Merano, in the region Italians call the Alto Adige but Austrians still refer to as the Südtirol, the name raises few eyebrows. With German the mother tongue of most locals, family names and traditions from the era of Austrian rule stick deep.

This year, Mr Zuegg has turned into a, somewhat unwilling, champion of cross-cultural opportunities and the need for change if Italy is not to be left behind in a two, or even three, speed European Com-

munity moving towards an increasingly liberalised market.

Though familiar to millions of Italian shoppers, Zuegg was hardly a name that tripped off journalists' tongues until its travels with a local council near Verona, one of its three production sites, came to light.

The Verona plant, which houses Zuegg's fruit juice operations, had long outgrown its boundaries. In a situation familiar to many in Italy, plans to expand had been thwarted by the country's notoriously slow planning bureaucracy. Worse still, an election defeat for the local council meant previously accepted proposals were overturned by its successor.

After years of struggling, Mr Zuegg decided to throw in the towel. "It's a labyrinth from which we failed to emerge for six years," he says. "Even in a zone earmarked for industry, the attitude seemed to be that industry didn't matter."

The decision coincided with the start of production at Zuegg's new plant near Berlin, in what used to be East Germany. Talks with the agriculture ministry of the German Democratic Republic about VEB Fruchtwerk, a small maker of fruit juices with around 150 employees, had started in the closing days of the communist era. Assisting the negotiations was none other than Mr Gregor Gysl, the lawyer turned politician who subsequently became the GDR's last premier and now heads a small all-German opposition party.

Discussions dragged on as the East German regime fell and the still-inexperienced Treubund privatisation agency took over. Finally, in June 1991 the deal was signed. Zuegg bought the plant for around DM5m (\$2m), slashed the workforce to 35 and spent DM60m on new machinery.

The timing could hardly have been better for Italians eager to point out their country's deficiencies. Here was an "Ital-

ian" company turning its back on the motherland for the efficient and reliable north. Zuegg's Teutonic traditions just added to the piquancy. The message for Italian industry was clear: a unified Germany was bound to suck up investment previously destined for southern Europe, and Italy was in danger of being marginalised in a unification-dominated EC unless it could put its house in order.

Mr Zuegg sees things differently. He says the company planned to expand abroad before matters in Verona came to a head. And the new Berlin plant – now the group's most modern – still has to overcome the suspicions of West German customers. Many potential western clients remain wary of the plant's semi-finished fruit concentrates, sold to dairy companies for fruit yoghurts. "The problem is that West German customers are still suspicious about things from the east."

"We knew from the start we couldn't

allow ourselves even one mistake." Although production started last November, early output was used internally. In spite of having ultra-modern machinery in a plant which is "the new" output built to meet the needs of the German market, the company is dedicated. "You mustn't underestimate these people. They have a sense of pride in wanting to show they can produce well."

He wants to develop the plant in east Berlin as a foothold for northern Europe with a whole range of products.

For a company with fewer than 500 employees and sales of just £250m (£222m) a year, Zuegg is remarkably Community-minded. Its promotional material comes in five languages, while its message is decidedly pan-European.

Its next aim is to introduce juice from Sicily's famous blood oranges to consumers in northern Europe, starting with Austria and Germany. The succulent fruit, only available for a limited period and

barley known outside Italy, will be lightly frozen, concentrated, and then sold chilled to north European customers.

Mr Zuegg is enthusiastic about the prospects. For, straddling the divide between Teutonic and Latin culture, the company is mindful of the potential for Italian products abroad. "We know we have no chance with just ordinary fruit juices in Austria and Germany. Imitating what others have done very well for 20 years is pointless," he says.

"But the common European market will give us the chance to promote our specialities. Over the years, we've seen that when we stick to what we know, we've done well."

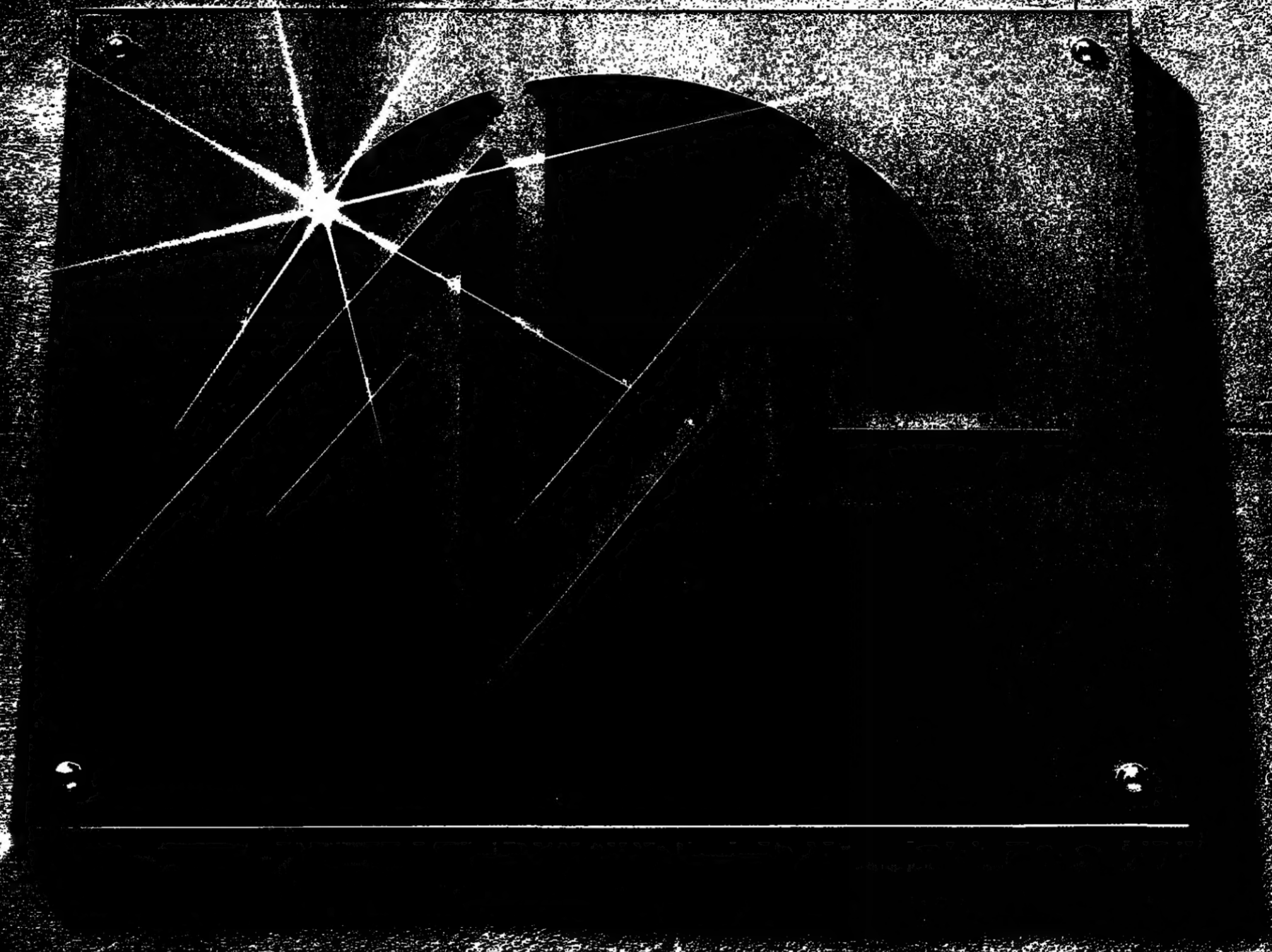
Taking Sicily's deep red oranges to northern Europe's shoppers could be just the tonic to liven up tired supermarket shelves. After all, the free market is supposed to increase choice, not just corporate earnings.

### INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1985 = 100.

UNITED STATES						JAPAN						GERMANY						FRANCE						ITALY						UNITED KINGDOM					
Exports	Imports	Trade balance	Current account balance	Effective exchange rate	Effective exchange rate	Exports	Imports	Trade balance	Current account balance	Effective exchange rate	Effective exchange rate	Exports	Imports	Trade balance	Current account balance	Effective exchange rate	Effective exchange rate	Exports	Imports	Trade balance	Current account balance	Effective exchange rate	Effective exchange rate	Exports	Imports	Trade balance	Current account balance	Effective exchange rate	Effective exchange rate	Exports	Imports	Trade balance	Current account balance	Effective exchange rate	Effective exchange rate
1985	278.8	-174.2	-158.7	0.7023	100.0	230.8	76.0	64.5	160.50	100.0	100.0	242.8	33.3	21.7	2,280	100.0	100.0	133.4	-3.8	-0.2	6,794	100.0	100.0	103.7	-18.0	-5.4	144.0	100.0	100.0	100.0	100.0	100.0	100.0		
1986	230.8	-140.8	-130.0	0.9535	80.2	211.1	66.2	88.5	165.11	124.4	248.8	55.5	40.3	2,178	102.8	127.1	0.0	3.0	6,794	102.8	102.8	102.8	102.8	102.8	102.8	102.8	102.8	102.8	102.8	102.8	102.8	102.8			
1987	220.2	-131.8	-141.8	1.1541	70.3	187.3	61.1	75.5	161.58	135.2	254.2	67.7	39.8	2,070	115.2	128.3	-4.8	3.4	6,925	105.0	100.7	-7.5	-2.1	140.5	102.8	102.8	102.8	102.8	102.8	102.8	102.8	102.8	102.8		
1988	272.5	-100.2	-107.0	1.1833	66.0	219.8	60.7	66.6	151.51	147.3	272.8	61.6	42.9	2,076	114.8	141.9	-3.9	-3.4	7,034	100.8	108.3	-6.9	-8.0	138.8	97.8	120.9	-32.9	-24.3	0.6943	96.5	100.0	100.0	100.0		
1989	330.2	-99.3	-91.8	1.1017	69.4	245.3	70.5	92.4	151.87	141.9	310.2	65.2	52.2	2,081	115.5	182.9	-6.3	-3.6	7,019	99.8	127.8	-11.3	-14.0	150.2	98.8	137.0	-36.7	-32.3	0.6728	92.6	100.0	100.0	100.0		
1990	306.0	-78.3	-70.9	1.2745	65.1	220.0	50.1	28.3	183.94	126.0	324.8	51.7	37.0	2,057	119.1	170.1	-7.2	-7.2	6,922	104.8	135.8	-9.3	-18.4	123.2	100.6	142.8	-26.3	-23.8	0.7150	91.3	100.0	100.0	100.0		
1991	340.9	-82.3	-5.0	1.2381	64.5	247.5	63.2	63.0	186.44	137.0	327.3	11.0	-1.6	2,040	117.7	175.4	-4.2	-4.7	6,943	102.7	137.0	-10.5	-28.0	133.3	96.8	147.7	-14.7	-9.0	0.7002	91.7	100.0	100.0	100.0		
4th qtr.1991	87.8	-12.4	-5.7	1.2548	63.3	62.9	23.7	18.2	182.38	141.2	84.0	6.8	-1.8	2,032	118.5	45.0	0.4	0.4	6,998	102.8	37.3	-1.2	-8.4	133.8	96.8	37.1	-3.7	-2.4	0.7088	90.9	100.0	100.0	100.0		
1st qtr.1992	87.3	-11.6	-4.7	1.2523	63.5	65.0	26.1	22.7	182.21	142.2	85.4	0.9	-1.1	2,042	118.8	45.4	0.9	1.1	6,942	103.4	34.3	-1.1	-7.6	133.7	96.8	36.7	-4.3	-4.0	0.7125	90.8	100.0	100.0	100.0		
2nd qtr.1992	86.7	-16.5	-14.0	1.2717	63.6	63.1	25.4	22.9	185.60	136.9	86.6	3.4	-4.5	2,011	118.7	46.2	1.5	0.8	6,912	104.4	35.8	-3.8	-11.1	134.5	96.5	37.9	-4.8	-4.0	0.7054	92.3	100.0	100.0	100.0		
3rd qtr.1992	86.9	-17.7	-1.3	1.3531	60.1	61.4	24.3	20.3	172.78	136.8	84.4	6.4	-6.8	2,021	122.1	45.2	1.0	0.6	6,836	106.8	32.9	-0.5	-8.2	139.6	96.2	36.3	-4.8	-4.2	0.7261	90.9	100.0	100.0	100.0		
October 1991	30.5	-4.9	n.a.	1.2082	64.6	21.6	8.0	5.6	157.77	142.4	27.3	1.5	-1.5	2,047	117.1	15.5	0.8	0.8	6,900	101.9	13.1	-0.9	-2.8	126.5	96.5	12.3	-1.3	-0.7	0.7014	90.5	100.0	100.0	100.0		
November	28.6	-3.3	n.a.	1.2568	63.2	20.9	7.4	5.9	182.99	140.9	28.0	1.9	0.9	2,040	118.9	15.0	-0.0	-0.1	6,975	102.8	11.1	-1.8	-2.5	133.7	96.7	12.3	-1.0	-0.6	0.7076	91.0	100.0	100.0	100.0		
December	27.7	-4.3	n.a.	1.2593	62.0	20.3	8.3	6.8	185.37	140.2	27.8	2.4	-1.2	2,035	118.9	14.4	-0.3	-0.3	6,941	103.7	13.1	-1.2	-3.3	133.7	96.1	12.5	-1.0	-0.9	0.7116	91.2	100.0	100.0	100.0		
January 1992	27.4	-4.5	n.a.	1.2926	61.8	21.5	8.0	5.4	181.84	140.8	28.9	-0.4	-0.4	2,036	119.3	14.9	0.2	-0.1	6,947	103.6	12.7	-2.0	-3.2	133.6	96.1	11.8	-1.6	-1.4	0.7131	90.8	100.0	100.0	100.0		
February	29.8	-2.6	n.a.	1.2834	63.4	21.7	8.3	7.7	161.18	143.3	27.7	1.1	-0.9	2,043	118.6	15.0	0.1	-0.8	6,972	103.8	11.4	-1.4	-2.2	133.5	96.0	12.6	-1.4	-1.4	0.7105	90.9	100.0	100.0	100.0		
March	30.1	-4.5	n.a.	1.2309	65.1	21.9	8.7	9.5	163.61	138.5	28.5	2.0	-0.2	2,045	118.4	15.5	0.2	-0.8	6,949	103.4	12.1	-1.6	-2.2	133.7	96.8	12.5	-1.2	-1.7	0.7141	90.1	100.0	100.0	100.0		
April	29.3	-3.7	n.a.	1.2438	64.8	21.0	7.8	7.5	165.92	138.2	29.5	2.5	-0.9	2,048	118.6	15.8	1.0	0.7	6,974	103.9	11.7	-1.2	-3.9	134.0	96.8	12.4	-2.0	-1.8	0.7078	91.4	100.0	100.0	100.0		
May	29.2	-5.8	n.a.	1.2676	63.8	20.8	8.8	8.8	165.57	138.7	29.2	0.8	-1.8	2,051	118.6	15.0	0.9	1.3	6,990	104.5	11.5	-1.9													

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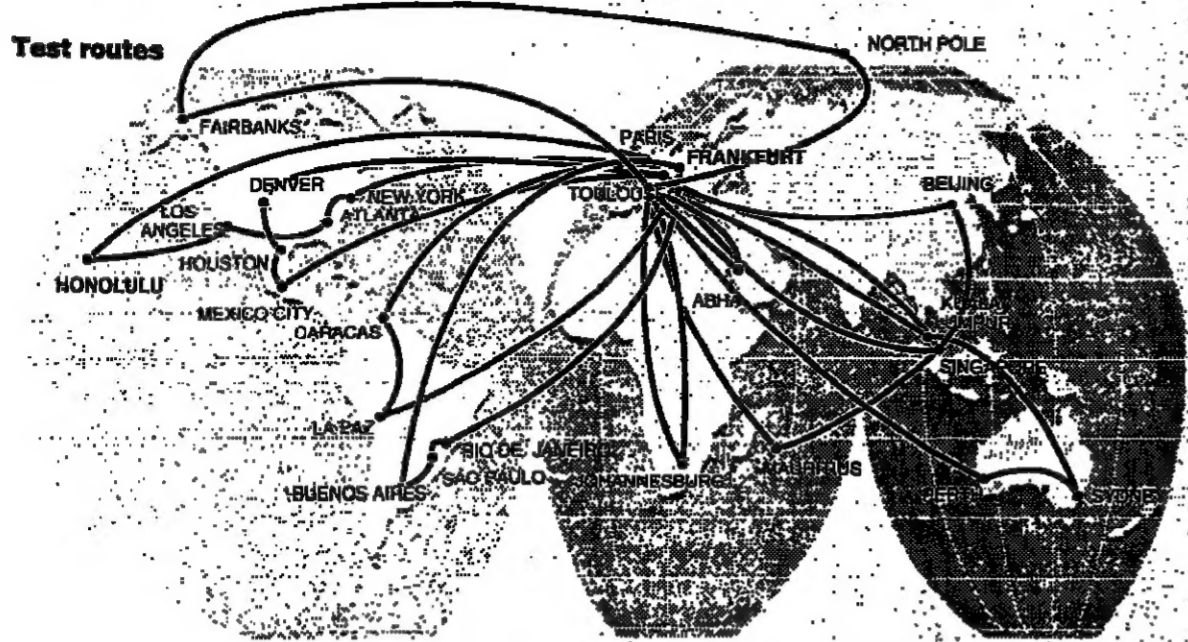
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## NEWS: INTERNATIONAL

## Airbus A340 test programme: the long haul to safety



## November 21 flight

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Airborne time: 15 hrs 21 min



Local time: 16.35

HONOLULU

## The key test flights

Completed: Toulouse ... Singapore ... Mauritius ... Toulouse  
 Completed: Hot and high trials: Toulouse ... Abha ... Toulouse  
 Completed: First flight over North Pole: Toulouse ... North Pole ... Fairbanks ... Toulouse  
 Completed: Longest test flight to date, 16 hours 22 minutes (but without full passenger weight): Toulouse ... Perth  
 21 November: Frankfurt ... Honolulu ... Los Angeles ... Atlanta ... New York ... Frankfurt  
 24 November: Paris ... Denver ... Houston ... Mexico City ... Paris  
 27 November: Paris ... Johannesburg ... Paris  
 28 November: Frankfurt ... Caracas ... La Paz (altitude tests) ... Frankfurt  
 29 November: Paris ... Beijing ... Singapore ... Paris  
 2 December: Frankfurt ... Buenos Aires ... Sao Paulo ... Rio de Janeiro ... Frankfurt



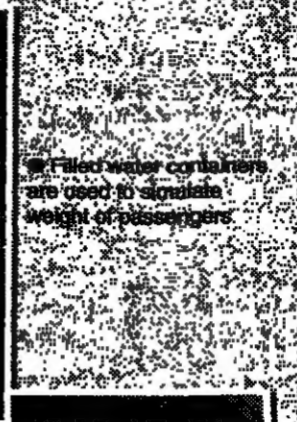
● Banks of on-board monitoring equipment



● A one-nineteenth scale model being prepared for wind-tunnel testing



● Cockpit features side-mounted joysticks



● Pilot is wired with cardiac test equipment



● Pilot is wired with cardiac test equipment

# Before making the world's longest commercial flight first fire frozen chickens at the aircraft

**J**ET LEGS are getting longer. An Airbus A340 four-engine widebody airliner in Lufthansa colours took off on Saturday from Frankfurt to fly non-stop 12,000 kms to Honolulu.

It took roughly 15½ hours and ushered in a new era of long-distance air travel. But the journey – the longest non-stop passenger flight ever to be undertaken under scheduled airline conditions from Europe – is only a small if spectacular part of one of the most exhaustive test programmes for a new civil aircraft before it begins regular commercial service in January.

Airbus is still struggling to win broad public acceptance of the fly-by-wire system it introduced in its A320 narrowbody twin-engine aircraft and which it is now adapting to the A340 and its shorter-range sister aircraft, the A330-300.

Fly-by-wire is a system of flying an aircraft through computers. It has been at the centre of a long-running controversy after three A320 crashes, two in France and one in India.

It has taken the European aircraft consortium two years to prepare its new airliner – claiming the longest range of any aircraft in aviation history for commercial operations. Airbus has spent about \$1.5bn on testing the safety and performance of the new airliner – two fifths of the aircraft's total \$3.5bn development cost.

Structural and fatigue tests have taken place on the ground as well as flight tests using six aircraft costing \$90m each. Airbus has made

1,200 modifications to the aircraft, many costing millions of dollars.

All new commercial aircraft undergo gruelling testing to meet increasingly tough airworthiness certification requirements. But Mr Bernard Ziegler, the head of Airbus engineering and a test pilot himself, says Airbus has had to undertake more extensive development testing than its US competitors, Boeing and McDonnell Douglas, not only because it is a relative newcomer to the airliner market but because its aircraft have introduced new – and at times highly controversial – technology to commercial aviation.

On fly-by-wire, Mr Ziegler insists that it is a safer and more efficient way of flying. Boeing, he notes, is now introducing it in its new 777 widebody twin-engine airliner.

AIRCRAFT ARE built to cope with marathon flights, but how does the human body cope? Mr Hans Mirka is the ultimate high-flying businessman. He left London on Tuesday for Dallas, flew on to Tokyo on Wednesday, was back in Dallas on Saturday and is returning home to London tonight. He does this sort of trip about once a month.

Head of international operations at American Airlines, the world's largest carrier, he was moved from the group's Dallas headquarters to London this year because his chairman, Mr Bob Crandall,

felt London was the perfect jumping-off spot for a globe-trotting executive. "Bans can leave London on a Friday, be in Tokyo on Saturday, leave for Dallas on Sunday, attend our Monday board meeting and then catch the night flight to be in his office in London first thing on Tuesday," Mr Crandall explained during a recent visit to London.

Mr Mirka, who has already done several of these round the world weekend business trips this year, is an extreme but by no means unique example of the globe-trotting execu-

## Paul Betts looks at the \$1.5bn programme to test safety and performance of the new Airbus A340

"The technology is not at stake and all three A320 accidents were crew-related," he says.

With the A320, though, he acknowledges, Airbus may not have sufficiently understood and addressed the task of training crews to fly using the new flight computer system.

To test the safety of its fly-by-wire system, the A340 – like the A320 – has undergone rigorous testing for electromagnetic interference. "The problem is what happens if an airliner flies by mistake over a secret military base equipped with special radars which could interfere with the electronics on board?" another Airbus executive explains.

"To study electromagnetic interference to the extreme, we stuck an aircraft in a French naval base, where it was bombarded by radio and radar waves of various intensity."

Lightning strikes can also cause serious electromagnetic interference, so the A340 was flown into a storm to seek out lightning. After 17 strikes, all systems continued to operate normally. The A340 also flew over the North Pole to test its navigational equipment when everything suddenly points from north to south. It was the first flight ever by an Airbus aircraft over the pole.

A cannon firing dozens of frozen chickens at the

aircraft's windshield and engine fan blades was used to test their resistance to birdstrikes. The runway at the French military base of Istres had to be lengthened by about 120 metres to test aborted take-offs and the aircraft's brakes.

Mr Robert Alizard, Airbus public-affairs manager, says: "We needed the additional runway length to give ourselves sufficient margin for these tests when brakes become red hot and tyres sometimes burst."

In ground tests, the structure of one A340 was stressed to breaking point. The wings were bent by 240 hydraulic

jacks four metres up before the first damage appeared. Another aircraft was used for fatigue tests, when vibration, landing impacts and pressure variations are simulated.

"We test all our aircraft for fatigue up to three times its planned service life and for some components up to five times," Mr Ziegler says.

One difficulty the A340 ran into in testing was vibration on the wings. "We had to make a slight modification in the wing profile in one local area but it still cost \$40m," says Mr Ziegler. Another snag arose when the aircraft's landing gear refused to lock properly. While static tests were

performed, Airbus ran flight tests. Two prototype aircraft loaded with computers studied the behaviour of the airliner at all speeds and altitudes, including the worst-case scenario: finding out how the aircraft reacted when various systems failed.

For the first time, Airbus conducted flight tests on the A340 in real time. "The information from computers in the back of the aircraft monitoring all aspects of test flight was directly beamed down by satellite to the Airbus Toulouse test centre."

The aircraft was thus constantly linked in real time to Toulouse, which could itself monitor the tests and instruct the pilots to conduct particular tests or repeat them immediately. In the past, the data from the test computers on board had to be deciphered after the aircraft had landed.

That can take up to four days. Mr Ziegler says about two-thirds of the test programme related to safety; the rest involved the performance of the aircraft in airline operation. "Today all the safety issues are resolved and closed; we are in the final route-proving programme to test the aircraft's operational reliability in commercial airline conditions," he says.

The two launch customers, Lufthansa and Air France, are taking part in the three-week route-proving tests involving long-distance and shorter-haul flights around the world using two aircraft: a longer-range A340-200 in Lufthansa colours and a shorter-range but higher-capacity A340-300 in Air France livery. The two aircraft are fitted out for commercial operations but also carry flight test instruments to measure not only aircraft performance but also cabin systems and passenger comfort.

"Although less significant for the manufacturer, it is extremely important for the airlines to start up operations with as mature an aircraft as possible," Mr Ziegler explains. "This involves chasing all the snags and teething problems you always get when you introduce a new airliner. We plan to avoid with the A340 about three-quarters of the introduction problems we had with the A320."

The first delay suffered during the present route-proving exercise by the Lufthansa A340 was on a short hop between Frankfurt to Madrid. "The coffee machine did not work," Mr Ziegler said. "My flight engineers couldn't care less – but the airline does ..."

Paul Betts

## High life has hazards for the long-range flyer

felt London was the perfect jumping-off spot for a globe-trotting executive. "Bans can leave London on a Friday, be in Tokyo on Saturday, leave for Dallas on Sunday, attend our Monday board meeting and then catch the night flight to be in his office in London first thing on Tuesday," Mr Crandall explained during a recent visit to London.

Mr Mirka, who has already done several of these round the world weekend business trips this year, is an extreme but by no means unique example of the globe-trotting execu-

tive. And with the start next year of 16-hour "hops" with the A340 very-long-range airliner, the world will shrink further.

The A340 is expected to open up a whole series of new long-distance connections that would be uneconomical to serve with a 400-seater Boeing 747-400. But the new era of long-distance flying raises a number of health and safety implications for passengers and airline crews.

So far, there has been no real evidence that flying over many different time zones damages your health. But Dr

Rory Barnes, a medical adviser for the UK's Civil Aviation Authority, recommends travellers to get up and exercise their legs during very long flights and restrict alcohol consumption to a minimum. "If you can sleep on an aircraft, try to plan a nap to put yourself in a new time zone," he advises, as well following an eating pattern on board to help the body change rhythm as it crosses different time zones.

One controversial issue is the possible risks of radiation. Dr Barnes says that very frequent fliers may face some

radiation hazards. Their exposure is less than for workers regularly exposed to radiation on the ground, but higher than for the normal population.

The higher and the closer to the North Pole you fly, the greater the radiation risk. On Concorde, which flies at 50,000 ft, a radiation meter is carried on board. New long-distance subsonic aircraft also fly high, with the A340 able to cruise at heights of up to 41,000 ft.

In contrast to pilots and cabin attendants, who go off duty after a long flight, business people usually have to start work.

Probably the biggest drawback of very long flights for businessmen is that they can reduce their overall performance on arrival.

Several studies have shown that jumping off an aircraft after a long flight straight into a meeting often leads to lower efficiency and poor decision-making.

"People often don't allow enough time to travel; businessmen would do better to delay taking decisions until they have recovered," Dr Barnes suggests.

Paul Betts

## Ozone hole rescue moves lead to a tussle

INTERNATIONAL agreements to prevent damage to the earth's ozone layer have been one of the past decade's most successful responses to environmental threats. Today in Copenhagen, representatives of some 100 countries meet to try and tighten safeguards further – but critics fear the new measures may represent a weakening of the rules.

The 1987 Montreal Protocol committed 91 countries to phasing out by the year 2000 all production of chemicals that could damage the ozone layer, notably chlorofluorocarbons (CFCs) used in aerosols and airconditioning.

Since then, consumption of ozone-depleting chemicals has fallen, largely because aerosols use substitutes.

Industrialised countries saw consumption of CFCs and halons, a second regulated class of chemical, fall by 33 per cent between 1986 and 1990. But consumption rose by 50 per cent in developing countries in the same period, although total levels are still more than 20 times less than the total in developed countries.

The protocol's signatories are wrestling with three main ways of tightening commitments further at the meeting:

● Accelerating the phase-out

dates. This is likely to be agreed, with the phase-out of CFCs, trichloroethane and carbon tetrachloride production brought forward from January 2000 to January 1996, and the phase-out of halons from 2000 to either 1996 or 1995.

Unlike the present form of the protocol, the new commitments will make exemptions for "essential industries", and those will not be defined until the next meeting in 1994. Environmental groups have been concerned that although the measures appear to represent a tightening of the rules, the "loophole" will allow much production to continue.

● Adding new chemicals to the controlled list. This is proving more controversial. HCFCs, increasingly used as a less-damaging substitute for CFCs, are one target, but environmental groups are concerned that the permitted levels will be set too high. Proposals to freeze production of methyl bromide, a pesticide widely used in preserving and transporting fruit and grain, look set for an even rougher ride. Developing countries and others who export a lot of fruit have questioned the evidence for its damaging effects.

● Establishing on a firmer basis the fund to pay for developing countries' adaptation. This is likely to be the biggest area of controversy. There is general consensus that the present interim fund of \$200m for 1991-1993 has not been working well. Some countries, such as the UK, have been criticised for not paying up their full commitment. They in turn have criticised the fund, which is implemented by the United Nations' development and environment programmes (UNDP and UNEP) and the World Bank, for its slowness in finding projects.

Bronwen Maddox

## Germany offers Hungary free military spare parts

By Nicholas Denton in Budapest

GERMANY will give Hungary free military spare parts from the former East German army, it said at the weekend, in spite of concerns that such deliveries might fuel tension. Mr Bernd Wilz, state secretary at the German Defence Ministry, said the equipment was necessary so as not to leave Hungary "undefended".

Bonn's decision comes after much hesitation and nervousness that military support for

Hungary, which borders the warring Yugoslav successor states, might infringe Germany's rules against providing arms to areas of crisis.

Mr Wilz emphasised that Germany would not supply lethal equipment, and Mr Erno Raffay, his Hungarian counterpart, denied that the announcement marked a Hungarian military build-up. But the announcement closely follows a visit to Budapest by Mr Boris Yeltsin during which the Russian president approved the delivery of \$300m (\$300m) in

supplies of military spares and air-defence equipment to Hungary in partial repayment for Russia's trade debt of more than \$2bn.

The latest arms deals reflect an attempt by Budapest to maintain military strength while a budgetary crisis precludes higher military spending. The effort to shore up the armed forces comes against the background of deteriorating relations with neighbouring Slovakia, Romania and Serbia, which all contain large Hungarian ethnic minorities.

الاصح الاصل

## Fears grow over CIS security

By John Lloyd

A TOP military official of the Commonwealth of Independent States has warned that CIS states were "less and less able" to ensure their own security.

He spoke as reports came in of a massacre of 800 refugees on the border of Tajikistan with Afghanistan, and of an intensification of fighting in the disputed enclave of Nagorno-Karabakh.

La Gen Leonid Ivanov, secretary of the CIS Defence Ministry, said in Moscow yesterday that armed conflicts were spreading in many regions and that none of the new states was capable of ensuring its own security because the process of forming armed forces had been so slow.

The worst example is Tajikistan, where, according to the Russian news agency NeGa, heavily armed groups attacked a refugee camp and killed some 800 people. There was no indication as to when the attack took place.

The camp appeared to be one of the thousands of refugees from the fighting between supporters of Mr Rakhmon Nabiyev, the former Communist leader and supporters of the pro-Islamic government. The fighting swept into the republic's capital, Dushanbe, last month. The complete breakdown of order in the country, and its fragmentation into areas controlled by different ethnic factions, appears to point to further conflict.

Mr Askar Akayev, president of the neighbouring republic of Kyrgyzstan, told a visiting group of US senators that Tajikistan could soon withdraw from the CIS and turn into an Islamic state.

In Azerbaijan, the Defence Ministry yesterday claimed that Armenian self-defence forces in the north of Nagorno-Karabakh attacked two strategic villages. Armenians said that 30 Azeri and eight Armenian soldiers were killed.

Diplomats say tightened embargo will fail to stop violations along Danube

## Blockade of Adriatic ports begins

By Laura Silber in Belgrade

WESTERN warships yesterday began enforcing a United Nations trade embargo on Montenegro and Serbia in an attempt to stop the war in Bosnia-Herzegovina.

Five ships from the Western European Union (WEU) yesterday were due to join seven Nato vessels detailed to stop and search all ships sailing to or from Adriatic ports in Montenegro, which along with Serbia comprises the reconstituted but unrecognised Yugoslavia.

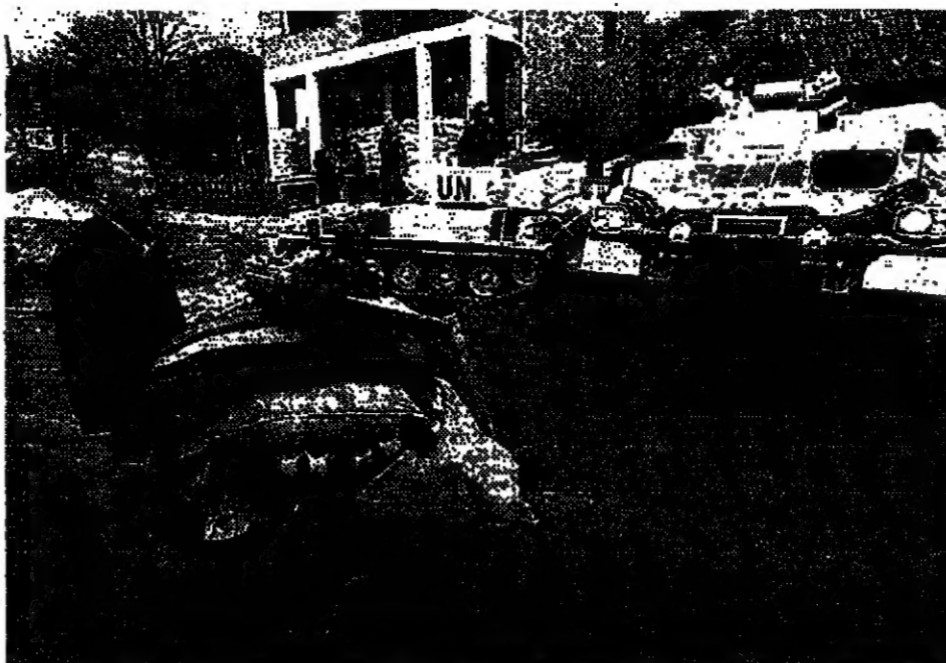
The task force, which includes the HMS Gloucester, is authorised to use force to stop any ship suspected of smuggling goods banned by the UN resolution.

Nato announced on Saturday that ships from its Standing

Naval Force Mediterranean (Stanavformed) would begin patrolling Adriatic waters yesterday with the support of maritime patrol aircraft in an operation codenamed Maritime Guard.

However diplomats yesterday feared that the tightened-up oil embargo would not stop violations along land routes and the River Danube. One diplomat said: "The blockade addresses only part of the problem, but the major violations concern interdiction on the Danube and the still porous land borders." Lorries laden with tens of thousands of tonnes of petrol ply Yugoslavia's frontiers each day, according to police and diplomats.

The UN imposed sanctions including an oil embargo on Yugoslavia on May 31. Until yesterday, however, the multi-



A Bosnian wheelbarrow carries his belongings yesterday past British armoured vehicles near Travnik.

national Adriatic flotilla was only empowered to monitor the sanctions, not to enforce them.

The sanctions have failed to curb the bloodshed in Bosnia. Serb forces yesterday shelled Sarajevo, the Bosnian capital besieged for nearly seven months. Four people were killed in shelling by Serb fighters of Travnik and Turbe, a

nearby village, 45 miles north-west of Sarajevo. Relief workers yesterday warned of an outbreak of typhoid fever in Travnik, packed with tens of thousands of refugees who have fled fighting in nearby towns.

Meanwhile in an interview yesterday with Politika, the main Serbian daily, Mr Dobrica

Cosic, the Yugoslav president, said he would not stand against Mr Slobodan Milosevic, the president of Serbia, in elections due on December 20. Mr Cosic, a well-known writer who wields great influence among Serbs, is widely seen as the only candidate who could pose a serious challenge to Mr Milosevic.

## Demirel aims to win better hearing on EC for Turkey

By John Murray Brown in Istanbul

TURKISH leader Suleyman Demirel takes his campaign for Turkey's membership of the European Community to London today amid signs that Turkey's conservative-led coalition is increasingly out of step with public opinion on Europe.

During talks with Mr John Major, the British prime minister, and Mr Jacques Delors, president of the European Commission, Mr Demirel will make the case that Turkey deserves a better hearing, and that its value to the west has become all the more vital given the political turmoil in the region.

Mr Demirel has been quick

to emphasise that Turkey's recent moves to bolster ties with both Black Sea and Central Asian states is no alternative to EC membership.

In Rome last week Turkey signed up as an associate member of the Western European Union. However Ankara remains anxious that this 10-nation defence organisation should not replace Nato as the centrepiece of European defence.

At the Turkey-EC association council earlier this month, both sides endorsed the idea of greater political dialogue. In turning down Turkey's application for membership in 1989, the Commission emphasised deficiencies in Turkey's level of economic development, on

human rights and on lack of progress on Cyprus. As one EC ambassador pointed out, the enhanced relationship now requires that the Turks address these issues with even more urgency, particularly on questions like the Kurds.

In his address to the Confederation of British Industry today, Mr Demirel will outline Turkey's commitment to customs union. From January 1, 1993, Turkey will simplify its tariff regime to re-establish the community's preference, following legislation passed by Ankara in July.

Turkey's accord with the EC envisages eliminating import tariffs by 1996, and adopting the community's external tariff.

## Peru goes to polls under heavy guard

By Sally Bowen in Lima

PERUVIANS went to the polls yesterday to elect a so-called "democratic constituent congress" to replace the two-chamber parliament dissolved by President Alberto Fujimori on April 5. Polling stations were under heavy military guard and security around the capital was tight.

But the electoral process, monitored nationwide by a team of over 200 observers, appeared to be calm and orderly. There were no reports of violence in the early hours of voting.

The new congress would be charged with writing a new constitution, as well as fulfilling standard legislative and watchdog functions, and is

expected to satisfy international community demands for a return to formal democracy.

Peru's two largest traditional political parties are boycotting the elections, however.

They claim the new congress, under what they perceive as Mr Fujimori's dictatorship, will enjoy neither legitimacy nor autonomy, and will be reduced to rubber-stamping decisions taken by the executive branch.

But Mr Fujimori's personal popularity appears to remain high enough to guarantee him the majority he insists he needs to continue with his wide-ranging programme of economic and structural reform.

### NEWS IN BRIEF

## ANC threat to stop constitution talks

THE African National Congress (ANC) has threatened to break off talks with the South African government on a new constitution unless a date for interim government elections is set when the two sides meet for bilateral negotiations, expected to take place next week, writes Patti Waldmeir in Johannesburg.

This latest ANC ultimatum which was repeated at the weekend by its two most senior leaders, President Nelson Mandela and Secretary General Cyril Ramaphosa, appeared to be an attempt to press home the ANC's current tactical advantage over the government, which has been weakened by disclosures of a military intelligence plot to undermine the ANC. However government was quick to reject the ultimatum.

## Tornadoes kill 16 in US

At least 16 people were killed and more than 200 injured in Mississippi, Tennessee and Alabama after a series of tornadoes and thunderstorms ripped across the southern US early yesterday, Reuters reports from Jackson.

The death toll exceeded that of Hurricane Andrew, which struck Florida and Louisiana in late August and caused 13 deaths. Officials estimated damage will be in the millions and thousands of residents from Texas to Georgia were without power.

## Israel adamant on peace talks

Israeli cabinet ministers yesterday said that Middle East peace talks would continue despite Arab warnings that the talks face collapse, Reuters reports from Jerusalem.

Mr Shimon Peres, foreign minister, said: "There is no deadlock because there will be a continuation of the negotiations."

Police Minister Moshe Shaleh denied a report that Palestinians at the talks in Washington had threatened if no progress was achieved soon.

## Italians convicted of bribery

Twenty Italian businessmen have been convicted of paying bribes for public works contracts in a corruption trial that has shaken Italian politics, Reuters reports from Milan.

Court officials said the men received sentences ranging from one year to 18 months for paying bribes to former Socialist Party official Mario Chiesa, who ran Milan's biggest municipal old people's home.

## Bhutto to attempt march

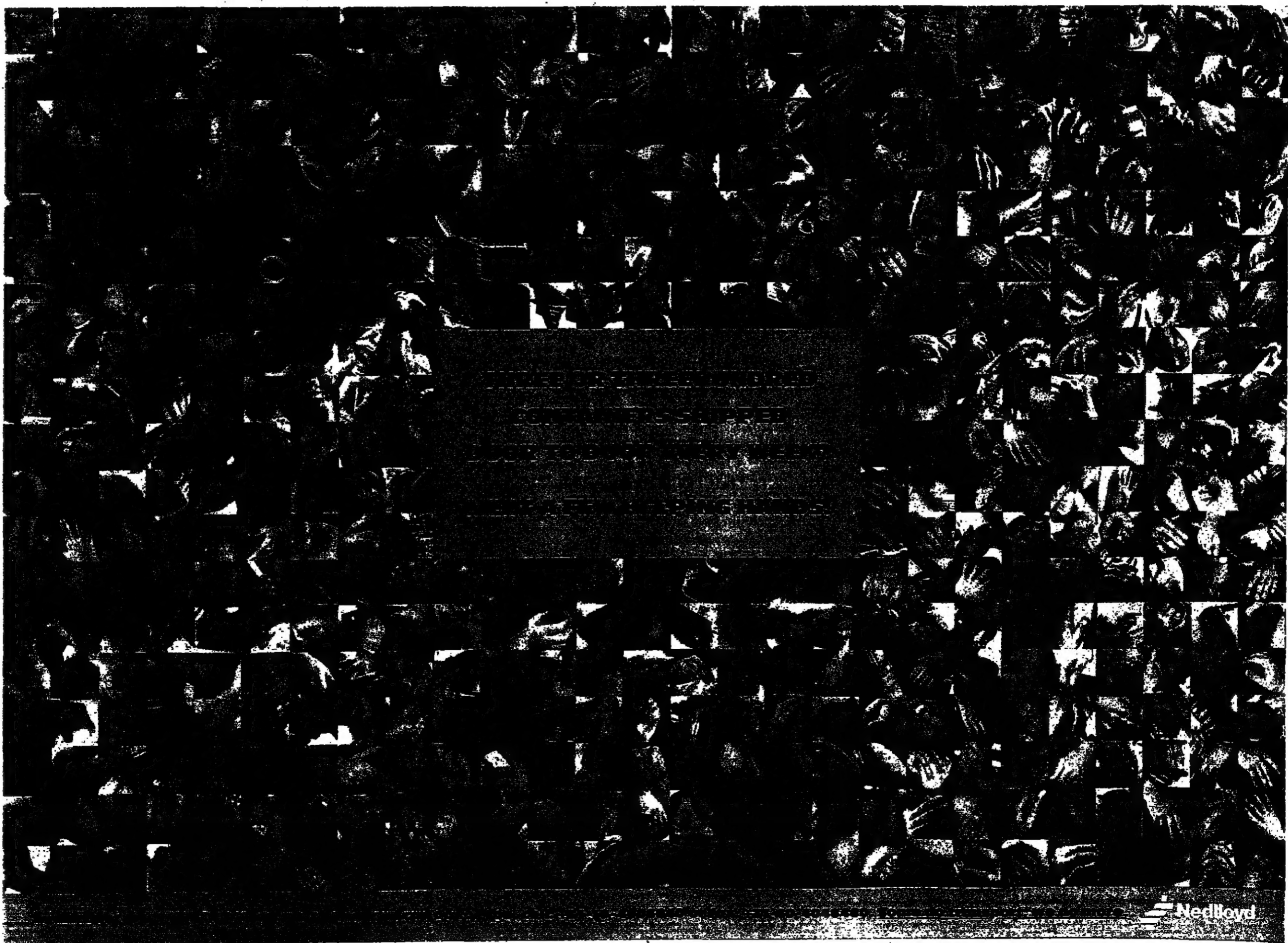
Mrs Benazir Bhutto, the Pakistani opposition leader, will today attempt to lead an anti-government protest march in the Northern city of Peshawar to step up pressure on Mr Nawaz Sharif, prime minister, writes Farhan Bokhari in Islamabad.

Ms Bhutto is likely to be stopped from going to Peshawar, a senior official said last night. But her announcement signals that her latest campaign is continuing.

## S Korean president apologises

Mr Roh Tae-woo, the South Korean president, apologised at the weekend for trying to stop his brother-in-law from leaving the country's ruling party, writes John Burton in Seoul. Mr Kim Bok-dong was briefly detained by the police last week shortly before he was scheduled to announce his defection to the opposition United People's Party (UPP).

The incident caused political controversy because it appeared to violate Mr Roh's pledge to remain neutral in next month's presidential election.



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## NEWS: UK

NatWest bank chairman calls for sweeping changes in City regulation

## Single financial watchdog urged

By Robert Peston,  
Banking Editor

LORD Alexander, chairman of National Westminster Bank, yesterday proposed that regulation of the financial services industry should be the responsibility of a single body with sweeping new powers and that the present collection of self-regulatory bodies should be abolished.

The proposed single regulatory body would have two divisions. One would police the market serving retail investors and adopt a rigorous approach to the enforcement of detailed rules designed to protect investors.

The other division would concentrate on the professional

market and would be more *laissez faire* in its regulatory methods.

Lord Alexander's intervention in the debate on the future of financial regulation follows the decision to hold a review of the regulatory structure, which is being carried out by Mr Andrew Large, chairman of the Securities and Investments Board, the senior City of London regulator.

Along with many other City executives, Lord Alexander believes that the burden of rules for the professional market should be reduced, so long as there are no detrimental effects for personal investors.

The NatWest chairman's proposal contains two other radical innovations:

● He wants the new regulatory body to operate a "system of tribunals" or City courts, to punish fraudsters and other financial wrongdoers.

● City practitioners should have the right to consult the regulatory body for advice on the legality of their business dealings. Lord Alexander said it was important that if sanctions against wrongdoing were increased that City practitioners should be able to receive reliable guidance when they had doubts about the legality of their actions.

Lord Alexander said the current system of prosecuting suspected wrongdoers was "slow, expensive and unpredictable... It is unfair both to the public and the accused". He

stressed that the new regulatory body should not take on the "vast bureaucracy" of the Securities and Exchange Commission in the US.

He is sending a memorandum to Mr Large outlining his views, but emphasised he was not being dogmatic and that Mr Large's eventual recommendations should command the widest possible support in the City and among the public.

There is widespread criticism of the current system. Mr Mick Newmarch, chairman of the Prudential Corporation, a leading insurance company, recently said that the UK self-regulatory system - regulated by financial practitioners - had failed.

## Labour seeks answers on Iraq

By Philip Stephens,  
Political Editor

THE opposition Labour party yesterday demanded "straight answers to the evidence of government complicity in the build up of Saddam Hussein's military machine, as MPs prepared for today's full-scale Commons debate on the Iraq arms affair."

Mr Robin Cook, the Labour trade and industry spokesman, said that over the past two weeks his party had demonstrated that the government had consistently misled parliament over the controls applied on defence-related sales to Iraq.

He said it was up to ministers to provide straight answers as to why equipment used in the Iraqi arms build-up was sold to Baghdad in breach

of the government's own guidelines and why those guidelines were changed without parliamentary notification.

Mr Cook said that Mr John Major had told parliament that the embargo on defence sales to Iraq imposed in 1985 had remained in force until the invasion of Kuwait in 1990. "We know that in 1988 they first relaxed the guidelines and then watered them down," he said.

Mr Cook, who again questioned whether Mr Major could have been unaware of the controversy during his spells in the late 1980s as foreign secretary and chancellor, said that British taxpayers were now footing the bill for breaches of the law.

He said the Export Credits Guarantee Department had provided insurance for defence-

related sales worth up to £200m on which the Baghdad government had subsequently defaulted.

The Labour motion for today's debate says the conduct of ministers in the affair has been "inconsistent with the security of British troops, with open government, and with the administration of the legal process".

But a government amendment says that the issue of whether any rules were breached must be left to the inquiry headed by Lord Justice Scott and accuses Labour of "sensationalism".

Ministers said yesterday the papers which would be made available to the Scott inquiry would fully support the government's case that there had been no conspiracy to arm Iraq.

## Britain in brief



## Recession affects credit attitudes

Public attitudes towards credit appear to have changed sharply as a result of the recession, according to a Mori poll carried out for the BBC.

Only 5 per cent of those interviewed said they would buy items such as cars on credit if their incomes rose, compared with 81 per cent who thought it better to save and use cash. Some 59 per cent thought the national economic position would get worse over the next 12 months - up from 31 per cent a year ago - while only 21 per cent believed it would improve.

## Skoda sets up UK importer

Skoda, Czech carmaker now under the management control of Volkswagen, is setting up an importer as part of a strategy to quadruple UK sales to 40,000 a year by 1996. Skoda Automobile UK takes over on January 1 from Skoda (Great Britain).

## Small company audits may end

The government may abolish the requirement for small limited companies to have an annual audit. The Department of Trade and Industry is likely to recommend dropping audits for companies with turnover below the value added tax registration threshold of £36,000. The move would reduce costs for at least 250,000 of the 1.1m limited liability companies.

## Japanese group 'adopts' schools

Japanese-owned Fujitsu Microelectronics has launched an Adopt a School programme in which employees of its County Durham semiconductor plant will be attached to twelve schools in north-east England, to encourage more pupils into engineering careers.

## Judges are 'out of touch'

Judges are too old, too male and too out of touch, says according to a survey of public attitudes to the legal system. More than 65 per cent of 1,000 people in England and Wales surveyed for the magazine Solicitors Journal agreed "judges are out of touch with everyday life and everyday people". Almost 80 per cent said there should be more female judges. Only four of 88 High Court judges are women.

## NOTICE OF MEETING OF BONDHOLDERS

To the Holders of

## Commercial Mortgage-Backed Bonds, Series 1986-1

9 1/2% Sinking Fund Bonds Due February 1, 1996  
9 1/2% Sinking Fund Bonds Due February 1, 1998  
Zero Coupon Bonds Due February 1, 2006

of

## Mutual Benefit Overseas, Inc.

NOTICE IS HEREBY GIVEN, in accordance with the provisions of the Indenture dated as of February 1, 1986 (the "Indenture") between Mutual Benefit Overseas, Inc. (the "Issuer") and Citibank, N.A., as Trustee, relating to the above-captioned Bonds (the "Bonds"), that, pursuant to Section 9.02 of the Indenture, a meeting (the "Meeting") of the Holders of the Bonds (the "Bondholders") will be convened by Marine Midland Bank, N.A., as successor trustee (the "Trustee") under the Indenture, on December 9, 1992, at 9:30 a.m. (London time), in the Orchard Room of the Dorchester Hotel, Park Lane, London, England. Capitalized terms used but not defined in this notice shall have the respective meanings ascribed to such terms in the Indenture.

## PURPOSE OF MEETING

On August 21, 1992, the Issuer, Samuel F. Fortunato, as Rehabilitator of Mutual Benefit Life Insurance Company in Rehabilitation (the "Company"), entered into an Agreement (the "Agreement"), subject to the approval of the New Jersey Superior Court supervising the MBL's rehabilitation (the "Court"), and the Bondholders, providing for, among other things: (i) the transfer of the common stock of the holding company of the Issuer (the "Transfer") to a court-appointed receiver (the "Receiver"); (ii) the appointment of JBI Schroeder Bank & Trust Company as Receiver, Agent on the terms set forth in Exhibit C to the Agreement; (iii) the termination of the Servicing Agreement and the Management Agreement; (iv) the appointment of a substitute servicer; and (v) the filing of a petition under Chapter 11 of the Federal Bankruptcy Code in respect of the Issuer by the Receiver Agent ten days after the Transfer, unless such a petition shall have previously been filed by Bondholders.

On October 21, 1992, the Court, by order of Judge Paul G. Levy, approved the Agreement. Accordingly, the only purpose of the Meeting is to:

1. Approve the substitute servicer proposed by the Trustee and the terms of its contract with the Issuer, or such other substitute servicer as may be proposed in accordance with the procedure set forth below;
  2. (a) Approve the appointment of the Receiver Agent and the terms of its proposed contract with the Issuer, (b) vote to exculpate MBL, in its capacity as Servicer, from any liability arising from certain actions taken with respect to certain Mortgage Loans, as more particularly described in Exhibit B to the Agreement (the "Workout Actions"); (c) approve the Workout Actions; and (d) direct the Trustee not to take any action against the MBL, based on the Workout Actions, the foregoing vote to exculpate, approval and direction being referred to hereinafter as the "Exculpation"; and
  3. Consider the advisability of the filing of a petition under Chapter 11 of the Federal Bankruptcy Code in respect of the Issuer by the Holders of Bonds or the Receiver Agent.
- In connection with the foregoing, it should be noted that:
- A. Under the Agreement, it is the intention of the Trustee that the Exculpation be approved by the Bondholders.
  - B. Under the Agreement, if the above matters are approved, the Transfer will occur on January 29, 1993, and on the tenth business day thereafter a petition under Chapter 11 of the Federal Bankruptcy Code in respect of the Issuer will be filed by the Receiver Agent unless such a petition shall have previously been filed by Holders of Bonds;
  - C. The Issuer has advised the Trustee that Holders of Bonds will be able to obtain material concerning the matters to be addressed at the meeting (the "Issuer Materials") on or after December 1, 1992 from (i) the Trustee, at the location specified below, or (ii) the Paying Agent listed below (the "Agents");
  - D. Bondholders wishing to propose an alternative to the substitute servicer proposed by the Trustee will have an opportunity to do so at the Meeting, provided that they shall have delivered to the Trustee, by 12:00 noon New York time, on Friday, December 4, 1992, the name of such proposed alternative substitute servicer and, in sufficient quantity for distribution to all Bondholders, such materials in respect thereof as such Bondholders wish to be made available to other Bondholders. Any such materials, provided to the Trustee will be made available to Holders of Bonds after 12:00 noon on December 7, 1992 by the Trustee, at the location specified below, and the Agents.

## ATTENDANCE AT THE MEETING

Pursuant to the terms of the Indenture, only persons qualified to vote at the Meeting, representatives of the Issuer, representatives of the Trustee, and the respective counsel to the foregoing, will be admitted to the Meeting. Members of the public at large and members of the press will not be admitted.

- A. A Bondholder who wishes to attend the Meeting in person must (a) produce at the Meeting either his Bond (or Bonds), or a valid original Ownership Certificate (as hereinafter defined) relating to his Bond (or Bonds), or (b) arrange for CEDEL or Euroclear to advise the Trustee of his ownership of Bonds and intention to attend the Meeting, all as provided more fully below. Ownership Certificates may be issued by the Trustee, at the location specified below, by each of the Agents, or, on a term available from the Trustee and the Agents, by any trust company, bank, depository or Luxembourg Stock Exchange member firm, in each instance satisfactory to the Trustee (an "Authorized Person").
- A Bondholder who does not wish to attend the Meeting in person, but who does wish to be represented at the Meeting, or that votes be cast at the Meeting in respect of the Bonds which he holds, must deliver his Bonds (or Bonds) or Ownership Certificate (or Certificates) to a person who is qualified to attend and vote at the Meeting on his behalf, along with a proxy form, which may be obtained from the Trustee or the Agents, authorizing such person to vote in respect of the Bonds listed in the Ownership Certificate, which proxy form must be signed by the Bondholder and accompanied by a signature guarantee by the Trustee, an Agent, or an Authorized Person.
- In order to obtain an Ownership Certificate, a Holder of a Bond in bearer form must, no later than two business days prior to the date of the Meeting, (a) deposit his Bonds with the Trustee or an Agent, or (b) deposit his Bonds with an Authorized Person, if not already so held, and obtain the signature of such Authorized Person, by an appropriate officer thereof, on a fully completed Ownership Certificate in the form available from the Trustee and the Agents. Bonds so deposited or held will be returned to the Bondholder upon the termination of the Meeting. A telefacsimile or photocopy of any Ownership Certificate issued by an Authorized Person must be furnished to the Trustee, at the location specified below, no later than two business days prior to the date of the Meeting. A Holder of a Bond in registered form who wishes to obtain an Ownership Certificate must cause to be delivered to the Trustee, at the location specified below, no later than 4:00 p.m. on December 4, 1992, a written request for an Ownership Certificate, which request must be received by the Trustee or an Agent.
- Any Bondholder whose Bonds are held by CEDEL or Euroclear may obtain admission to the meeting by causing CEDEL or Euroclear, as applicable, to advise the Trustee in writing, no later than two business days prior to the date of the Meeting, of such Bondholder's name, the original principal amount(s) and stated maturities of the Bonds owned by such Bondholder, and that such Bondholder, or his named representative, intends to attend the Meeting. Any Bondholder whose Bonds are held by an institution that holds such Bonds through Euroclear or CEDEL should request that such institution either (a) direct Euroclear or CEDEL to provide the Trustee with the name of such Bondholder, or the name of his representative, along with the amount of his beneficial holding(s), on which case no Ownership Certificate will be required, or (b) issue an Ownership Certificate, in which case Euroclear or CEDEL should be requested to confirm the holdings of such institution in respect of which Ownership Certificates have been received. The Trustee has been informed that in order for CEDEL and Euroclear to assure compliance with the aforementioned schedule, they should be instructed by the Bondholder or institution, at the case may be, in an appropriate manner, at least four business days prior to the date of the Meeting. It is urged that Bondholders seeking assistance from Euroclear or CEDEL contact them sufficiently in advance of the aforementioned deadline to ensure timely compliance with such relevant requirements as Euroclear or CEDEL may have.
- The original Ownership Certificates must be delivered to the Trustee in London on the day of the Meeting in order to be admitted to the Meeting, and will be retained by the Trustee.
- Proxies to attend the Meeting will be required to furnish identification satisfactory to the Trustee.
- THE TRUSTEE RESERVES THE RIGHT IN ITS SOLE DISCRETION, TO ADMIT OR DENY ADMISSION TO THE MEETING TO ANY PERSON PURSUANT TO BE A BONDHOLDER OR REPRESENTATIVE THEREOF WHO FAILS TO COMPLY STRICTLY WITH THE REQUIREMENTS SET FORTH IN THIS NOTICE.
- For there to be a quorum at the Meeting there must be one or more persons present entitled to vote Bonds representing a majority in aggregate principal amount of the Bonds at the time outstanding.
- Any matter submitted for determination or action proposed to be taken at the Meeting will be decided by written ballot. In the event of a vote, every person who is present and entitled to vote shall have one vote for each One Dollar (U.S. \$1.00) of unpaid principal amount in the case of the Sinking Fund Bonds or Accrued Value (in the case of Zero Coupon Bonds) of the Bonds held or represented by such person. Ballots will be made available at the Meeting.

The Agents referred to in this Notice are:  
Citicorp Investment Bank (Luxembourg) S.A.  
16 Avenue Marie Thérèse  
L-2121 Luxembourg

Citibank, N.A., CSHI Department  
Citicorp Center—Third Floor  
Hayes Lane  
London SE12QT, England  
Attention: Paul Donovan

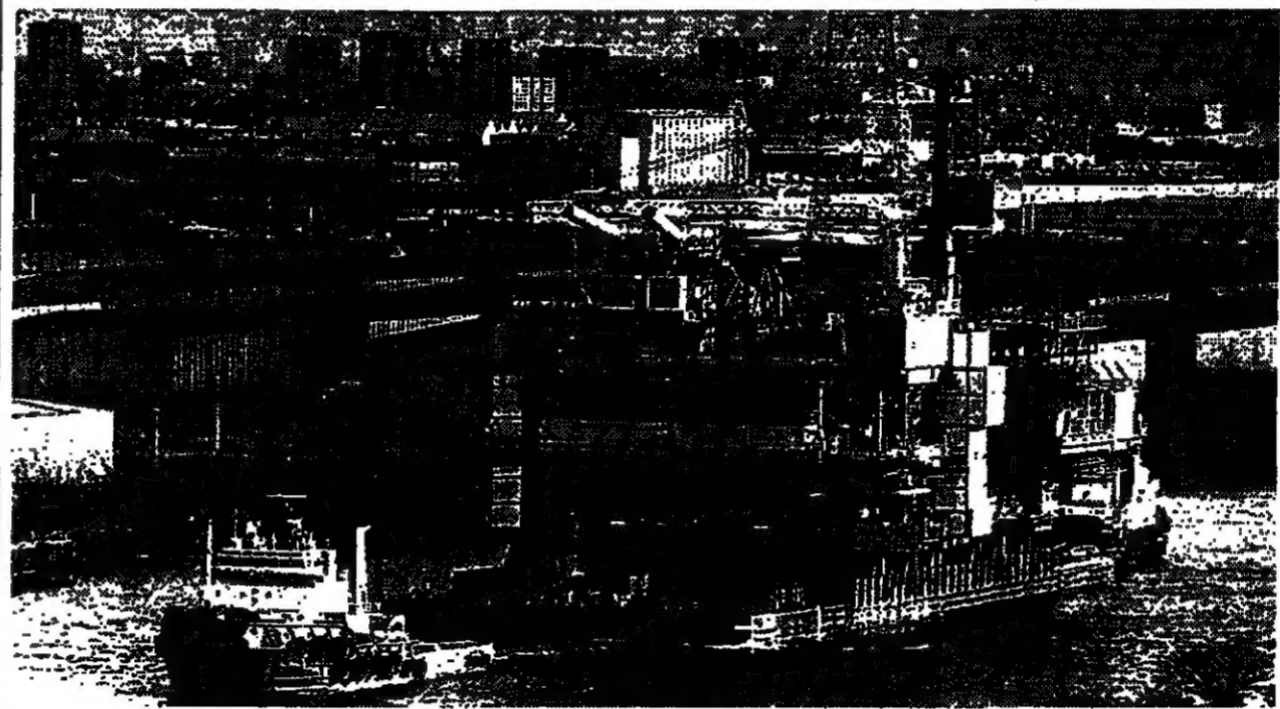
Marine Midland Bank, N.A.  
Trustee  
140 Broadway—25th Floor  
New York, New York 10038  
Attention: Ms. Ann George

CEDEL  
1, rue de la Reine  
L-1010 Luxembourg  
Attention: Cécile Evers  
Telephone: 44-99-2-5221  
(Telex): 34-99-2-8207

Euroclear Operations Center  
Rue de la Régence  
B-1000 Brussels, Belgium  
Attention: Cécile Special  
Operations  
Telephone: 519-2877  
(Telex): 519-26131

THIS NOTICE IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you should contact your professional adviser.

MARINE MIDLAND BANK, N.A.  
as Trustee



A 8,000-tonne deck for a gas production platform leaving Glasgow for the North Sea where it will hook up to the Lomond field operated by Amoco, UK arm of the Chicago-based oil company. The 250m deck left the yard at URS Scotland on Clydebank, where the Queen Mary, Queen Elizabeth and QE3 liners were built.

## Castle rather than contents bears brunt of fire damage

By John Griffiths

AS SMOKE and steam lingered yesterday over the ashes of what were once some of the most stately of Windsor Castle's 1,000 rooms, it became clear that the castle's art treasures had been less damaged by the weekend's fire than had previously been feared.

By last night, Buckingham Palace and National Heritage Department officials agreed the biggest task arising from the blaze which raged through the 800-year-old castle for more than 24 hours is the restoration of the building itself.

Some of the worst-damaged rooms had been stripped of most of their contents as part of a three-year renovation programme just months before the fire. Only a handful of works of

art have been lost although they include Sir William Beechey's huge portrait of George III, familiar to millions of visitors to the castle from around the world.

Calls, particularly from some Labour MPs, were increasing yesterday for the Royal Family itself to contribute to rebuilding costs, despite the government having acknowledged its long-standing responsibility for maintaining the fabric of Windsor and other royal residences.

Mr Peter Brooke, Heritage Secretary, is expected to make a statement in the Commons today setting out when and how reconstruction will start. Media reports of between £50m and £80m being needed were dismissed by officials as "guessimates".

Reports of how the fire

started, ranging from a workman's dropped cigarette to a welding torch left too near curtains, were also dismissed as speculative. A team of forensic experts is trying to discover the cause. Senior officers of the Berkshire fire brigade also rejected reports that cost-cutting measures by the royal household had reduced fire cover at the castle.

Tourists were still being allowed into unaffected lower grounds of the castle yesterday. Nearly 650,000 visited the castle last year but it remained unclear how long some of the main incentives to visitors will be closed. The 200-foot long St George's Hall is devastated and roofless. The Waterloo Chamber is ruined and both the Grand Reception Room and great Corridor badly damaged.

## Two Canadian banks in new Lloyd's row

TWO Canadian banks - the Toronto-Dominion Bank and the Bank of Nova Scotia - are refusing to honour letters of credit they gave to Lloyd's Names until English courts rule on allegations of fraud at the insurance market, writes Richard Lapper.

Both banks wrote to Lloyd's on behalf of two Lloyd's Names earlier this month. The Names are among some 80 Canadians who face heavy losses as a result of their membership of syndicates managed by Feltrim, Gooda Walker and other agencies. The letters of credit must show in underwriting at the insurance market.

Lloyd's is playing down the importance of this latest row. A spokesman said that allegations of fraud "are unfounded".

## HOUSE MORTGAGE RATE

With immediate effect

Courts &amp; Co have reduced their House Mortgage Rate for new borrowers to

8.5% (8.87% typical APR).

Their House Mortgage Rate for existing borrowers will be reduced to

8.5% (8.87% typical APR)

with effect from

Tuesday 22nd December 1992.

Mortgages are granted subject to status and conditions. Applicants must be over the age of majority. Security is required. APR's may be variable. Written quotations are available on request.

YOUR HOME IS AT RISK IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE OR OTHER LOAN SECURED ON IT.



Courts & Co  
440 Strand, London WC2R 0QS

## Notice of Redemption

## J.P. Morgan &amp; Co. Incorporated

US \$200,000,000 Floating Rate Subordinated Capital Notes due 1997

NOTICE IS HEREBY GIVEN, pursuant to the provisions of the Indenture dated as of December 19, 1985 (the "Indenture"), between J.P. Morgan & Co. Incorporated, (the "Company") and Bankers Trust Company, as Trustee, that the Company has, at its option elected to redeem \$100,000,000 principal amount of its Floating Rate Subordinated Capital Notes due 1997 (the "Notes") on December 22, 1992 (the "Redemption Date") at 100% of their principal amount plus interest accrued thereon to the Redemption Date (the "Redemption Price") in accordance with Article Three of the Indenture and as set forth in the terms and conditions of the Notes. The following are the Bonds which will be redeemed in whole:

Outstanding Notes of \$100,000 each bearing serial numbers ending in the following two digits:																			
00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19
20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39
40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59
60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79
80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99

Also Notes of \$100,000 each bearing the following serial numbers:

0000	0001	0002	0003	0004	0005	0006	0007	0008	0009	0010	0011	0012	0013	0014	0015	0016	0017	0018	0019
0020	0021	0022	0023	0024	0025	0026	0027	0028	0029	0030	0031	0032	0033	0034	0035	0036	0037	0038	0039
0040	0041	0042	0043	0044	0045	0046	0047	0048	0049	0050	0051	0052	0053	0054	0055	0056	0057	0058	0059
0060	0061	0062	0063	0064	0065	0066	0067	0068	0069	0070	0071	0072	0073	0074	0075	0076	0077	0078	0079
0080	0081	0082	0083	0084	0085	0086	0087	0088	0089	0090	0091	0092	0093	0094	0095	0096	0097	0098	0099

Outstanding Notes of \$250,000 each bearing serial numbers ending in the following two digits:

00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19
20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39
40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59
60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79
80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99

Also Notes of \$250,000 each bearing the following serial numbers:

0000	0001	0002	0003	0004	0005	0006	0007	0008	0009	0010	0011	0012	0013	0014	0015	0016	0017	0018	0019
0020	0021	0022	0023	0024	0025	0026	0027	0028	0029	0030	0031	0032	0033	0034	0035	0036	0037	0038	0039
0040	0041	0042	0043	0044	0045	0046	0047	0048	0049	0050	0051	0052	0053	0054	0055	0056	0057	0058	0059
0060	0061	0062	0063	0064	0065	0066	0067	0068	0069	0070	0071	0072	0073	0074	0075	0076	0077	0078	0079
0080	0081	0082	0083	0084	0085	0086	0087	0088	0089	0090	0091	0092	0093	0094	0095	0096	0097	0098	0099

All conditions precedent to each redemption have occurred and the principal and interest on the Notes will become due and payable on the Redemption Date upon presentation and surrender of the Notes not called for redemption together with all unamortized coupons attached, on or before the Redemption Date at the specified office of any of the Paying Agents listed below:

Swiss Bank Corporation  
1 Aeschenvorstadt  
CH-4002 Basel Switzerland

Morgan Guar

Swiss bankers traditionally neither take risks nor are they iconoclasts, especially where computer systems are concerned.

Yet a group of cautious banks, based in Lausanne and Geneva, is pioneering an approach to data processing which may presage a new era in electronic banking.

Led by Banque Cantonale Vaudoise (BCV), a medium-sized retail bank serving the canton of Vaud from its Lausanne headquarters, the group is pooling its computing resources in a separate organisation owned equally by five founder members.

The collaboration has come about principally through BCV's need to share the estimated £100m costs of developing new and more competitive computer systems.

The Financial Times first examined the project when it was on the drawing board, three years on, it seems to be going well with cost reductions of up to 30 per cent a year expected by 1995 on what would have been total running costs for individual members of the consortium.

The new company, Unicible, is now planning to recruit more members and sell its services outside, doubling the number of accounts it is processing to 2m within five years. Its management considers this the minimum to survive. The Union Bank of Switzerland, one of the country's big three international banks, is among the organisations which has already talked to Unicible about possible co-operation.

Unicible began operations formally at the beginning of the year, causing a stir in staid Swiss banking circles.

Alan Cane reports on a pioneering effort to develop a new approach to data processing

## Swiss bankers share secrets

The development is controversial because it provides identical data processing services to each member, operating computer hardware on behalf of shareholders from two mainframe sites.

A bank's computer system these days contains as much of value as its vaults. Accounting information, lending records and so on, are filed away on batteries of capacious disc drives.

It is the kind of data which can be used to compile marketing profiles of customers, opening the door to the cross-selling of a wide variety of financial products. Bankers conventionally see such information as their crown jewels and guard it jealously.

Yet the Unicible shareholders - BCV and Cr dit Foncier Vaudois in Lausanne, Banque Hypoth caire du Canton de Gen ve and Caisse d' pargne de Gen ve in Geneva and Banque Cantonale du Valais in Sion - are not only sharing processing services, but developing applications software on a common basis, using a single software development method.

This includes software designed to give institutions a competitive edge, again an area companies traditionally reserve for their own computing specialists.

The Unicible initiative is a form of facilities management, or "outsourcing", which is becoming an increasingly credible option for companies anxious to concentrate on what they do best, leaving essential, but non-core, activities to outside specialists.

But it is still highly unusual in the banking community. Barclays Bank in the UK, for example, recently hived off its data processing department as a subsidiary, Barclays Computer Operations (BCO), which sells computing services to outside customers in addition to members of the Barclays group. BCO is wholly owned by Barclays, and its outside customers - while in financial services - are not competitors.

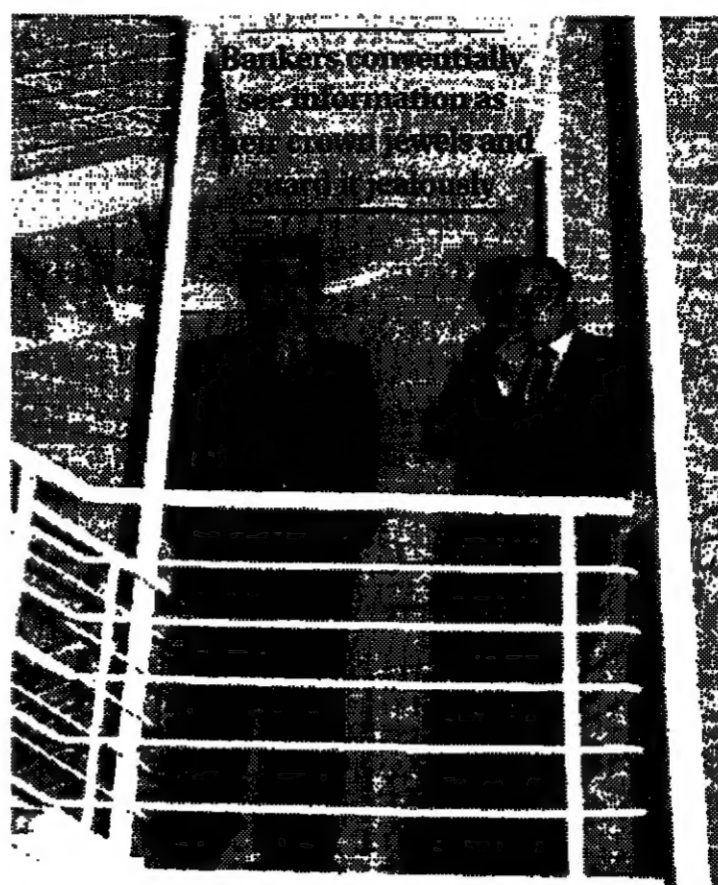
Unicible has its origin in decisions taken in the late 1980s by BCV. Then a moderately successful cantonal bank, it was concerned

about its continuing ability to hold its own with its big Swiss competitors - Union Bank of Switzerland, Swiss Bank Corporation and Cr dit Suisse - and, with the advent of the single European market, foreign banks as well.

Like many cantonal banks, its strength lay in its local business - personal savings and mortgages - and it lacked the business expertise and computer systems flexible enough to exploit newer, more profitable banking products.

The bank had two iconoclasts among its senior executives: Francis Randin, then senior vice-president for organisation and information systems, and Pierre Pennone, head of information systems development. Randin, the youngest-ever member of the Swiss Bankers Association, has now given up his banking career to run Unicible. Pennone has taken charge of systems development there.

Randin and Pennone persuaded BCV to re-engineer its business processes and its information systems using special computer software developed by Texas Instruments,



Pierre Pennone (left) and Francis Randin: developing new information systems

the US-based electronics company, and new International Business Machines' file system, DB2.

Business process re-engineering - changing the way a company does business to focus its responsiveness to fast-changing markets - is a hackneyed term today but,

back in 1988 it was very new, as was the Texas Instruments' software Information Engineering Facility or IEF.

BCV became its first commercial site; it still has more experience of the technology than any other customer.

IEF is a very large and sophisticated form of computer-aided systems engineering (Case); it uses computer power to design business processes and automatically write the computer systems to underpin them. According to the US technology consultancy Gartner Group, it has proved itself the most successful Case system in a difficult market.

But the entire strategy, planned to take up to 10 years to complete, was certain to cost more than BCV could afford alone, hence Unicible. Three years into implementation of the transformation strategy, both Randin and Pennone agree that IEF has proved an effective re-engineering tool.

One-third of the five banks' application programs - some 2,000 operational procedures - have been rewritten; another third will be ready in 18 months. That leaves what Pennone describes as "decision-making" programs - software for competitive advantage but in areas outside the banks' present expertise.

For these topics it is seeking outside know-how: for investment portfolio management, for example, it has bought a Belgian product which it is rewriting, using IEF to offer to its shareholders.

Pennone explains that Unicible works because its shareholders have the same processing needs and the same global strategy; they are not in competition with each other although they face the same threats from bigger banks.

And they have the same need to keep up with technology. Pennone is already beginning to think about open systems and multimedia which he says represent a "tremendous opportunity".

## Exploring new construction contracts

Deborah Hargreaves says BP is seeking to cut the cost of gas exploitation



There is a fine balance to be struck between cutting costs and maintaining quality

BRITISH Petroleum is pioneering a new type of contract that could significantly cut the cost of construction work in the North Sea.

The new contract heralds much closer co-operation between North Sea contractors and their oil company customers at a time when rig orders are thin on the ground.

BP has entered into partnership with two contracting companies, UTE Scotland on Clydeside and Glasgow engineers, Kvaerner HG Offshore, to share the cost of building a 250m rig to develop the Hyde gas field.

The three companies have created an alliance that aims to get away from the traditionally adversarial relationship between contractor and client.

By clubbing together, the companies are hoping to eliminate any overlap in the work of designing and building the gas rig.

This should cut down on excess costs which often build up when a contractor is working on a project.

The idea of a partnership between oil operators and contractors is driven by the changing needs of the North Sea where future developments will be small and extremely cost-sensitive.

Brian Dwyer, managing director at UTE Scotland, estimates that the Hyde rig should be completed 30 to 35 per cent below the budgeted figure.

"The common objective is to come out below target, whereas contractors often boost costs in order to make a profit," he says.

The design, engineering and construction team working on the Hyde contract consists of around 30 people when, typically, a similar project would have employed three times that many.

Layers of inspectors and supervisors have been eliminated although the project managers stress there is still a fine balance to be struck between cutting costs and maintaining quality and safety.

If the rig is completed below cost, the cash left over will be used to pay out pre-set profit levels to the two contractors. Once that has

been paid, any remaining funds will be split on an agreed percentage basis between all three partners.

This means the contractors stand to earn higher profit margins than on traditional contracts, but since they carry part of the risk they could also end up with nothing.

If the project is subject to any cost overrun, additional funds are provided by all three companies on an agreed percentage basis up to a certain cap.

Chris Rhodes, manager of the southern North Sea exploitation and development at BP, explained the necessity of cutting costs: "Maybe for the Forties development [one of the first flagship North Sea

fields] you could afford a bit of gold-plating and still make money, but you can't do that on these smaller fields."

The partnership idea also builds a closer, more long-term relationship between contractors and oil operators in the current uncertain climate.

"There is a growing recognition that if we continue to do things as we've always done in the North Sea, the life expectancy of contractors and operators is limited," said Rhodes.

BP is applying the general principles behind a partnership deal in its negotiations with other contractors and other North Sea operators are looking at the concept with interest.

But some oil executives believe the idea works only with smaller, less complicated construction projects and will take some time before it can be applied to large-scale deals.

## In Rio, major nations agreed to spend billions to control pollution. Guess who's the leader in controls?

A major worldwide effort of unprecedented proportions began at the Earth Summit to preserve the

world's natural resources. Undoubtedly, it will continue for years, if not decades.



world's natural resources. Undoubtedly, it will continue for years, if not decades.

Equally undoubted, we feel, will be Honeywell's involvement. By being able to provide the kind of technology and services that will be crucial to meeting these tough environmental goals.

For this reason, we believe Honeywell is poised for continued growth through the decade.

You see, today we are in just one business. Controls. Sophisticated ones that perform thousands of tasks that are too fast, precise, dangerous, remote, boring or labour-intensive for people to tackle.

And that, it turns out, also helps customers deal with environmental and pollution problems.

Because Honeywell controls and systems help maximize efficient energy consumption for building and

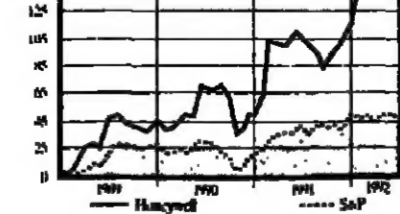
manufacturing operations. They also help industries meet tighter production specifications.

That helps minimize waste and hazardous by-products - not to mention the demand for resources.

Less consumption and less waste mean less pollution. In fact, our controls are already helping companies meet tougher environmental standards.

We trust that having read this, you won't be surprised to know we are the global controls leader in homes, buildings, industry and aviation.

Stock Performance



\* Share prices can fall as well as rise. Past performance cannot be relied upon as a guide to future performance.

  1992 Honeywell Inc.

For instance, Honeywell controls are in 60 million American homes, 40 million homes in Europe, and

millions of buildings around the world. Our avionics equipment is on virtually every aircraft in the western world. And we have the largest installed base of distributed process control systems in the world.

Last year, measured on a comparable basis, sales increased in each of our three businesses. All in a soft global economy. Therein lies another strength of our broad market presence. We have the ability to remain competitive throughout economic cycles.

We believe that's one reason our stock price has gained value every year since 1989. See for yourself on the graph.\*

Better yet, write to us for complete information today.

Honeywell Investor Relations, Honeywell Europe, Ave. du Bourget, 3, 1140 Brussels, Belgium. Or give us a call, (322) 728-22-76.

## Honeywell

Helping You Control Your World

### REPEAT INVITATION TO TENDER FOR THE HIGHEST BID for the separate purchase of the production units and other assets of "HELLENIC CHEMICAL PRODUCTS & FERTILISERS COMPANY SA", of Athens, Greece.

"ETHNIKI KEMHALOU S.A. Administration of Assets and Liabilities", in its capacity as Liquidator of "HELLENIC CHEMICAL PRODUCTS & FERTILISERS COMPANY SA", of 20, Amfilios Ave., Athens, Greece (the "Company"), which has been declared, by virtue of decision No 4299/1992 of the Athens Court of Appeal, under the status of special liquidation according to the provisions of Law 1892/1990

announces a repeat call for tenders

for the highest bid by submission of sealed bidding offers for the separate purchase by public auction (the "Auctions") of one or more of the production units and other assets of the Company, defined by the Athens Court of Appeal as follows:

#### PRODUCTION UNITS AND OTHER ASSETS OFFERED FOR SALE (brief description)

1. DRAPETSONA INDUSTRIAL COMPLEX - "DIC" (1st Auction): The DIC is built on an estate of 255,000m<sup>2</sup> owned by the Company and located by the sea in Drapetsona, Piraeus and is accommodated by exclusive port facilities. It includes motors for fertilizers, for sulphuric acid and phosphoric acid, for chemicals, for short glass and for agricultural chemicals. The DIC is in operation with a personnel of 810 employees.
2. KASSANDRA MINES (2nd Auction): The mines are located in the area of the villages of Stratos and Olympos in the Chalkidiki Peninsula (Northern Greece) and are accommodated by port facilities. The mines include 1,764,000m<sup>2</sup> of land owned by the Company, houses and two different locations on plots for mixed sulphides with a capacity of 700,000 and 400,000 tons respectively with certain sulphides ore reserves of more than 13 million tons and possibly 7 more million tons and, in addition, 11 million tons of pyrite, 4 million tons of chalcocite, and 1.5 million tons of manganese ore. The Company is holding mining licenses over a total area of 350Km<sup>2</sup>. The Mines are in operation with a personnel of 1,049 employees.
3. HERMION QUARRIES (3rd Auction): In the quarrying sector the Company is holding a marble quarry of a variation known as "Heliokostas" and two plants for the processing of marble blocks of a capacity of 15,000m<sup>3</sup> situated near the town of Hermion in Peloponnese on owned land of 106,000m<sup>2</sup> including houses of a total covered area of 5,242m<sup>2</sup> and offices and stores of a total covered area of 984m<sup>2</sup>. The quarries are in operation with a personnel of 10 employees.
4. STOCKS IN CING SA (4th Auction): 19m thousand (9,000) registered shares in the Greek company "Chemical Industries of Northern Greece S.A.", being 15% of the share capital thereof.
- 5-6. REAL ESTATE PROPERTIES (5th-6th Auction): (a) 25,000m<sup>2</sup> of land within and 172,000m<sup>2</sup> outside the territorial limits of the Valera Area (Province of Mani); and (b) 14,000m<sup>2</sup> of land in the Elati (Attica) region outside the "town plot".
7. REMAINING ASSETS OF THE COMPANY (7th Auction): The remaining assets of the Company, which are offered for sale as a single whole, include a portfolio comprising stocks in various Greek companies, various mining licenses, real estate properties and other assets.

OFFERING MEMORANDUM - FURTHER INFORMATION: Interested parties may obtain an Offering Memorandum for each of the above mentioned production units and other assets, an Information Memorandum for the Kassandra Mines (prepared by Citibank, N.A., financial adviser to the Liquidator) and any further information, upon execution of a confidentiality agreement.

#### TERMS AND CONDITIONS OF THE AUCTIONS

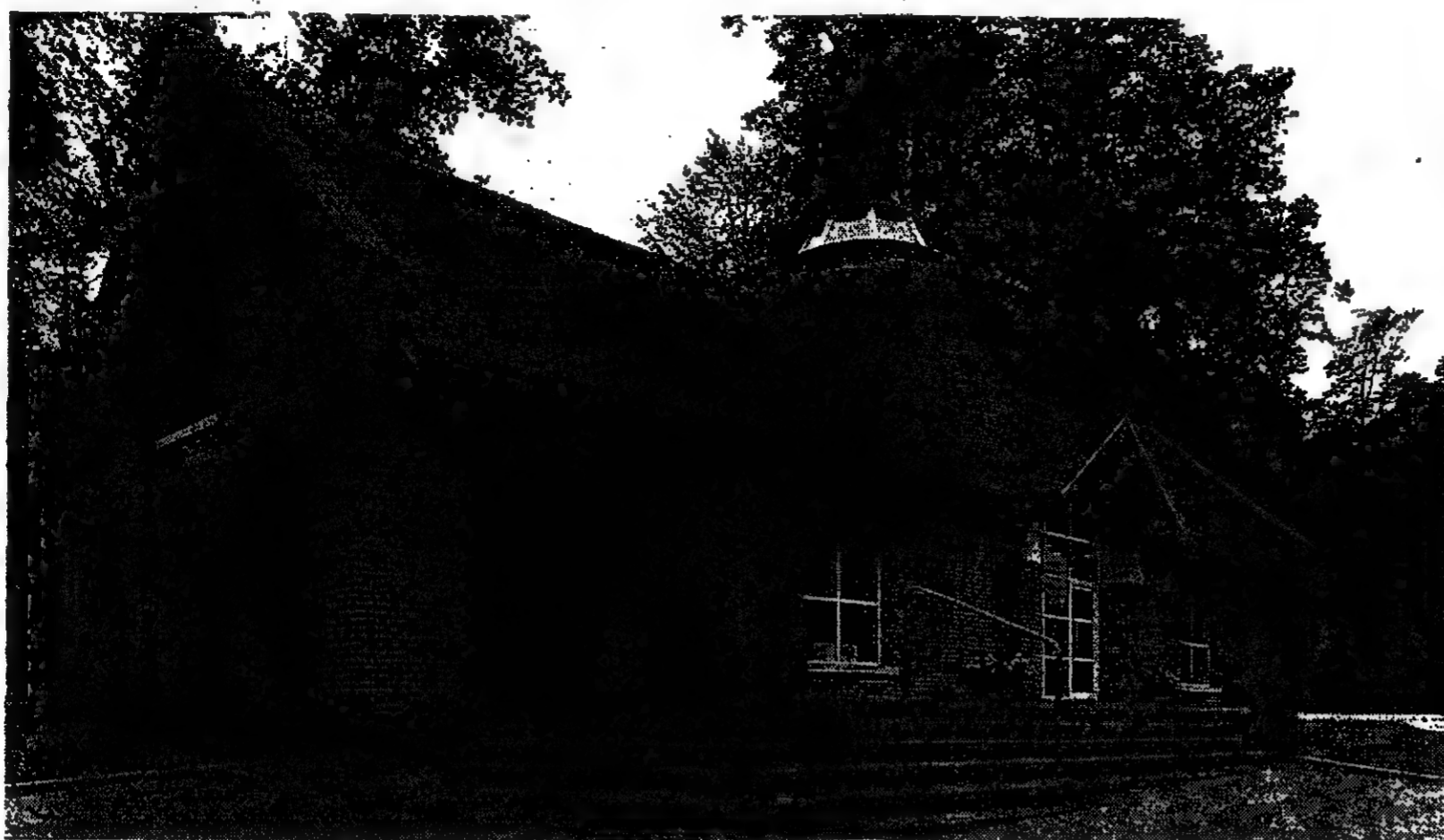
1. The Auctions shall take place in accordance with the provisions of article 46a of Law 1892/1990, the terms and conditions set forth herein and the "Terms and Conditions of Sale" contained in the respective Offering Memoranda. Such provision and other terms and conditions shall apply irrespective of whether they are mentioned herein or not. Submission of bidding offers shall mean acceptance of such provisions and other terms and conditions.
2. Bidding Offers: For the participation in each of the Auctions interested parties are hereby invited to submit binding offers, not later than the 14th December 1992, 12:00 hours, as follows:
  - (1) For each of: Drapetsona Industrial Complex (1st auction), the Stocks in CING SA (4th auction) and the plots of land (5th-6th auction) to the Athens Notary Public Ioanna Givrieti-Angelomantili, address: 18 Filiothess, Athens, tel: +30-1-362.51.91 or 361.97.28; and
  - (2) For each of: Kassandra Mines (2nd auction), Hermion Quarries (3rd auction) and the Remaining Assets of the Company (7th auction), to the Athens Notary Public Anna Tafiada, address: 10-12, Ippokratous str., Athens, tel: +30-1-361.95.83 or 364.31.38.
 Offers should expressly state the offered price and the detailed terms of payment (in cash or in instalments, mentioning the number of instalments, the dates thereof and the proposed annual interest rate). Binding offers submitted later than the prescribed time limit, as referred to hereinabove, shall neither be accepted nor considered. The offers shall be binding until the adjudication.
3. Letters of Guarantee. Bidding offers must be accompanied by letters of guarantee, issued, in accordance with the draft form of letter of guarantee contained in the respective Offering Memoranda, by a bank legally operating in Greece and valid until the adjudication. The amounts of the letters of guarantee must be as follows: (a) for Drapetsona Industrial Complex (1st auction): drs. 350,000,000; (b) for Kassandra Mines (2nd auction): drs. 350,000,000; (c) for Hermion Quarries (3rd auction): drs. 40,000,000; (d) for the Stocks in CING SA (4th auction): drs. 40,000,000; (e) for each of the plots of land (5th-6th auction): drs. 40,000,000; and (f) for the Remaining Assets of the Company (7th Auction): drs. 40,000,000. Letters of guarantee shall be returned after the adjudication. In the event of non-compliance with the provisions and other terms and conditions referred to in paragraph 1 hereof, the letters of guarantee shall be forfeited as a penalty.
4. Submissions: Bidding offers together with the letters of guarantee shall be submitted in sealed envelopes. Submission shall be made in person or through a duly authorized agent.
5. Envelopes containing the bidding offers shall be unsealed by the respective Notaries, in their offices, at the addresses mentioned above, on the 14th December 1992, at 13:00 hours. Any party having duly submitted a binding offer shall be entitled to attend and sign the deed attesting the unsealing of the bidding offers.
6. As highest bidder shall be considered the participant whose offer will be judged, by the 51% of the Company's creditors (the "Creditors"), in their absolute discretion, upon suggestion of the Liquidator, to be in the best interests of all of the creditors of the Company. Mention is made that for the purposes of evaluating an offer proposed to be paid in instalments, the present value thereof shall be taken into account, which shall be calculated on the basis of a discount interest at an annual rate of 28% compounded quarterly or yearly.
7. The Liquidator shall give written notice to the highest bidder to appear on the date and place mentioned therein and execute the contract of sale in accordance with the terms contained in his bidding offer and/or any other improved terms which may be suggested by the Creditors and agreed upon. Adjudication shall be deemed to take effect upon execution of the contract of sale.
8. Mention is hereby made that special additional terms shall apply in respect of the sale of each of (a) Drapetsona Industrial Complex (1st auction), (b) Kassandra Mines (2nd auction), and (c) Hermion Quarries (3rd auction), in view of the fact that said production units are in operation and will be so sold and that the current assets are subject to daily variation. Such special terms are included in the "Terms and Conditions of Sale" contained in the respective Offering Memoranda for each auction and refer to the consideration of the bidding offers in relation to the value of the current assets, the transfer of the current assets and a possible arrangement in respect of the variation of the current assets during the period between the evaluation of the offers and the execution of the contract of sale. In respect of the 7th auction, mention is also hereby made to those of the items included in the Remaining Assets of the Company, which are used for the operation of the productive units of the Company (such as office equipment, vehicles, telephone lines etc), shall be delivered to the successful bidder of the 7th auction after the completion of the proceedings of the Company's Liquidation.
9. All costs and expenses of any nature in respect of the participation and the transfer of the assets shall be exclusively borne by the participants and the purchaser respectively.
10. The Liquidator and the Creditors shall have no liability nor obligation whatsoever towards the participants in relation to the evaluation of the offers or the appointment of the highest bidder or any decision to repeat or cancel any of the Auctions or any decision whatsoever in connection with the proceedings and the making of the Auctions. The Liquidator and the notaries shall have no liability for any legal or actual defects of the assets. Submission of binding offers shall not create any right for adjudication nor the participants shall acquire any right, power or claim from this invitation and/or their participation in any of the Auctions against the Liquidator and/or the Creditors for any reason whatsoever.
11. This invitation has been drafted in Greek and translated in English. In any event the Greek version shall prevail.

For obtaining the Offering Memoranda and for any further information please apply to:

The Liquidator's agents: Messrs Ioanna Detsis and Andreas Zervas, address: 20, Amfilios Ave., Athens 105-57, tel: +30-1-322.75.70, fax: +30-1-322.11.83.

In respect of the Kassandra Mines, to the Liquidator's financial adviser: Citibank, N.A. (Athens Branch), address: 8, Othonos, ATHENS 105-57, tel: +30-1-324.86.56, fax: +30-1-324.52.77 (att. Vasilina Tziboulas, Vice President).





Vernacular Kentish architecture: the simple and elegant visitors' centre at Chartwell

Architecture/Colin Amery

## Vision in a visitors' building

The recent death of Sir John Summerson leaves a colossal gap in the world of architectural history and writing. For me and many others in the arcane world of architectural criticism, he was both mentor and model. He was simply the very best writer in English on architecture.

But he was more than a writer because for many years, as curator of the Sir John Soane Museum, he protected and nurtured both the atmosphere of the museum and the thinking of England's most original neo-classical architect. One felt, on seeing Sir John Summerson in his silent and empty office on the top floor of the museum, that you might almost have visited Soane himself.

Summerson was 87 when he died, having suffered from Parkinson's disease for some years. He will be remembered for his major writings. *The Classical Language of Architecture* explains in the most lucid way how the elements of classical order began and how they can be used and interpreted. This slim book began life as a series of Third Programme talks and perhaps it was the discipline of using just words to make architecture visible that gives this book such power.

All lovers of London will know his *Georgian London*; it expanded the boundaries of architectural history by looking beyond architectural style to

economics, patronage and social mores. His volume on the history of English architecture in the Pelican History of Art series remains a bible, but the book I re-read most often is the volume of essays, *Heavenly Mansions*. Here he writes about architectural ideas from Soane to Le Corbusier in ways that are positively exciting. I felt that Sir John condensed many of the ideas from this book into one of his best essays when he wrote about the design for the unbuilt Liverpool Cathedral by Sir Edwin Lutyens for the catalogue of the Lutyens Exhibition at the Hayward Gallery a few years ago. He was so skilled a writer and interpreter of architectural thinking that the whole cathedral now lives in those pages as though it had been built.

This year has seen the loss of three great architectural Englishmen: Sir James Richards, John Piper and Sir John Summerson. They all influenced my generation and demonstrated that architecture can, above all the arts, bring intellectual and visual satisfaction. They were all marvellous mentors - but it was always the few well chosen words by Summerson that gave any architectural debate its cutting edge. His pellucid prose is his finest monument.

The deaths of prominent and distinguished men always prompts thoughts about the values they represented in

English life. There is a distinctive English vision in the work of the three men who have died so recently. Pondering on that vision, I felt that one of the bodies in England which does so much to sustain it, and is relatively unused, is the National Trust. I visited Chartwell last week - where Churchill contemplated the Kentish Weald and English values - to see one of the Trust's new visitors' buildings.

The National Trust takes enormous care over all its buildings, and that includes the relatively minor additions, shops, restaurants, kiosks and car parks. At Chartwell, the new shop is designed by a local Sevenoaks architect, Richard Reid. The Trust is prepared to be quite adventurous, and believes that it should patronise the best contemporary architects.

Mr Reid has given the Trust a simple and elegant modern building from which to sell its wares. It is a cross between a barn and an oast - the tall tiled roof culminates in a curved cast-iron funnel that lets a shower of top light into the centre of the shop. From a distance the new building groups well with the (much less satisfactorily designed) restaurant.

There are oasts on the skyline in this part of Kent and so the new roof looks at home. The Flemish bonded brickwork and warm clay tiles lend what could be a mundane shop a considerable architectural presence.

I liked the open arcades at each end and the loftiness of the interior.

The roof of the shop is tall and steep and filled by a web of openwork timber trusses. There is a rewarding sense of high light that elevates the whole shop. There are fine views from well placed large windows - a bonus for staff working indoors all day. The quality of the shop furnishings is high. National Trust shops have sometimes been criticised for the cosiness of the goods they sell, but that is another story.

The Trust's commitment to good new architecture is borne out by Richard Reid's pleasing interpretation of vernacular Kentish architecture at Chartwell, and I am looking forward to reviewing the much larger new visitors' centre at Fountains Abbey in Yorkshire which has recently opened, designed by Edward Cullinan for the National Trust. Cullinan has just won the competition for the new visitors' centre at Stonehenge in a competition organised by English Heritage. It will be largely underground.

In these recessionary times I suppose it is inevitable that there should be an enhanced appreciation of small buildings. It was John Summerson who pointed out the crucial importance of the aesthetic. He would have appreciated the care that the National Trust is taking to make its smallest new buildings of the highest quality.

### Concerts/Andrew Clements

## A Nielsen experience

virtues in Nielsen, though, are joyously straightforward and correct. He takes no liberties, never attempts to lard Nielsen's melodic lines with extra expressiveness, and drives the music from start to finish with unflinching energy and pinpoint architectural logic, relying upon the CBSO deliver it with maximum vividness.

Just why Rattle's Nielsen seems so convincing was partly explained in a television documentary on BBC2 on Saturday. The conductor wrote and introduced *Carl Nielsen: A Life in Six Symphonies*, guiding

viewers with great lucidity through each of the works with the help of Robert Simpson, most faithful of Nielsen's advocates, a smattering of archive film, and extracts from the symphonies performed by the CBSO. The programme ended with a magnificent account of the Third, *Sinfonia espansiva*.

Along the way there were fascinating points that one longed to be amplified - Rattle's description of the Fifth Symphony as the greatest work to come out of the experience of the First World War, and the Sixth as a response to

the modernism of Stravinsky and Schoenberg; most challenging of all, perhaps, Simpson's admiration for Nielsen as the sanest of 20th-century composers. Certainly there is a triumph of tonality in these symphonies, a close kinship with and extension of the tradition of 19th-century romanticism. As Rattle's performance of the Second on Friday made plain, there is a great deal of Brahms and Dvorak in his make up, just as the finale of the Fourth seems Nielsen's nearest approach to his exact contem-

porary Sibelius. If abandoning of tonality is regarded as a symptom of neurosis, then ergo Nielsen becomes a model of mental stability. But if musical psycho-history is not as straightforward as that, then his music is harder to place, and more intriguing: the autobiographical relationship between his life and his symphonies becomes central and unresolved. These are great symphonies, the Third, Fourth and Fifth especially, and like all such products of a post-symphonic age especially troubling and teasing.

City of Birmingham Symphony Orchestra: Barbican Hall; final concert 28 November.  
"Carl Nielsen: A Life in Six Symphonies": BBC2 television.

### Theatre

## Sought after troupe

Three years ago its tours were banned because so many directors defected to the west; now Bucharest's Bulandra Theatre is among the most sought after troupes in the world. Shakespeare is its special strength, and after a realpolitik *Hamlet* in London two seasons back, we now have a *Midsummer Night's Dream*, which I caught at the European Theatre Festival, whose Bulandra hallmarks of originality, frenzy and up-to-date reanimation place it among the best Shakespeare productions anywhere in recent years.

Forget politics or Transylvanian fairy tales. This is a raw, sexy, intoxicating show with a kernel of pure lyricism. The mood recalls the magic light-heartedness of Peter Brook's famous 1970 *Dreams* reworked through 1980s images and sounds. A huge yellow moon is suspended above a shiny red floor and reflecting red panels. Mortals come in white cotton dresses and suits, fairies disco-dance in black T-shirts and leggings, Oberon and Puck are bikers in crinkly leather with metal-studded bracelets and striped headbands. The shimmering, hypnotic repetitions of Philip Glass's music echo the rhythmic pattern of the setting.

What gives Liviu Ciulei's staging its effervescent sensuality is a series of rapid vignettes based on conflict and polarity. Titania floats up to the moon on a translucent glass disc from where she writhes with desire for the earth-bound Bottom in his asses head. Helena, a dreamy blonde bimbo who at once hugs and fights her rival, the spiky-haired, dark, woman-of-action Hermia. Titania and Oberon argue across an empty dinner table stretching from opposite ends of the stage.

This is the imagery of a tense, dynamic *Dream*. Sex means war - from the first shiver of eroticism when Amazon Hippolyta is divested of her Kate Adie commando jacket into a svelte bridal number and Theseus gasps with desire. Violence is violence - Demetrius kicks Helena around like a dog ("Use me but as your spaniel, spurn me, strike me") in a sado-masochis-

tic dance ending with a flick of knives. Lysander reacts so to the love potion that he sleepwalks into Puck, who limps off with a broken ankle.

Movement, gesture, looks of menace or desperation, camp little kicks of Bottom's fat legs, for example, are the more immediately effective as we do not understand the language. Desires govern character in this tenderly defined rendering. Puck is a paddy tomboy girl who giggles fearfully at sex. Demetrius is a narcissist in love with power, Lysander is older, troubled, urgent. The detail is a joyous affirmation of the individual, yet the bold outline is never lost.

Ciulei co-ordinates his star troupe brilliantly. Brittle wills and spirits clash with just controlled energy, each touch or glance is acutely timed, the slapstick of the mechanicals, wryly dignified in their incompetence, is a masterpiece of precision. Ciulei's genius is to place human detail within a powerfully sustained dramatic vision, so that the whole is greater than the sum of parts - surreal settings, minimalist black and white costumes, Glass's haunting crescendos - all of which alone enchant.

This production, Heiner Müller's *Mausier*, and the fabulous ensemble playing of Budapest's Katona Josef Theatre in *Platonov*, assure triumph for Giorgio Strehler's first European Theatre Festival in Düsseldorf and his bold choice of eastern companies - five of the ten participants were once behind the Iron Curtain.

A quick rave. *Platonov*, the early Chekhov tragic-comedy about a village school-teacher, seen at the National Theatre in 1984 as *Wild Honey*, is here set by veteran Chekhovian Tamas Ascher in a sumptuously light, creamy world of wooden villas, rattan furniture and white suits and directed at a galloping, hysterical pace. It stays just within Chekhov's mix of irony, melodrama and elegy and shows extraordinary sensitivity and exhilaration.

Jackie Wullschlager

The European Theatre Festival, to November 27, Düsseldorf Schauspielhaus. 0211 36 87 136. A *Midsummer Night's Dream* continues at Teatrul Lucia Sturdza Bulandra, Bucharest; *Platonov* at Katona Josef Theatre, Budapest.



Raw, sexy and intoxicating

## Hawks and Doves

Without having had a premiere in the West End, or at the National or RSC, Louise Page has become one of our best known younger playwrights. She is author of *Salomka*, *Golden Girls*, *Real Estate* and, last year, her *Adam Was a Gardener* premiered at Chichester. Her work has been performed in 21 countries and it is usually intelligent, sensitive, touching, adult and absorbing.

Last year's *Adam Was a Gardener* was subtitled "an evocative love affair between the past and present"; *Hawks and Doves*, her new play now at Southampton's Nuffield Theatre, is subtitled "a love story for the '90s". In both plays love commences between a man and woman from different backgrounds, a love based on shared values, not least on affection for the English countryside. But here the love is between an upper-class Southerner and a lower-class Northerner; and it goes wrong.

So, unfortunately, does the play. It begins promisingly,

like some low court near-plotless modern version of the attraction between Jane Eyre and Rochester. But it becomes increasingly like a North/South adaptation of *Howard's End* - a too-simple-by-half depiction of heartless toffs (ie. hawks) exploiting honest working or unemployed folk (ie. doves) and a skeleton-in-the-cupboard melodrama to boot. The toffs breed peregrine falcons, one of the working-class Northerners fancies pigeons.

Both classes admire open countryside, wild birds and Mozart. These shared sympathies are enough to get Otto out of his upper-class marriage to Julia and into a new one with working-class Marie - but that isn't far enough. When it comes to croquet, Julia and Otto insist "You can only learn the rules as you go along," as they win. Marie, refusing to play any more, replies "Some people are born knowing them."

Well, croquet is enough to wreck any marriage, but worse is the fact that Otto is hiding

from Marie his complicity in - well, in the plot; professional discretion forbids me to say more. Suffice it to say that Marie finds out and the play ends - fatuously - on her reaction (vengeful) and his (terrified). Gillian Bevan, playing Marie, has a charming housewife-Cinderella manner, but also has an unbecoming hairdo and too many dropped syllables. Michael Simkins carries off Otto's mixture of whimsical sensitivity and lordly authority well, but he can't stop the final moment of terror from seeming risible. But everybody is wrestling with a poorly-paced script and weak direction.

Remarkably, only young Alex Scott, as Marie's son Paul, creates a fully three-dimensional character. He is as first-rate as he was last year in *Adam Was a Gardener*: spontaneous and vivid.

Alastair Macaulay

Nuffield Theatre, Southampton

## INTERNATIONAL ARTS GUIDE

### BERLIN

**CONCERTS**  
● Tomorrow evening at the Philharmonie Kammermusiksaal, Nash Ensemble plays works by Messiaen, Beethoven and Ravel (2548 8232). At Schauspielhaus, Zagreb Radio Symphony Orchestra plays works by Beethoven and Schubert on Wed. Michel Plasson conducts Berlin Radio Orchestra in works by Fauré, Schumann and Musorgsky on Fri and Jörg-Peter Weigle conducts Berlin Symphony Orchestra in works by Weber, Hornig and Beethoven on Sat and next Mon. Christian Tetzlaff gives a recital of Beethoven violin sonatas on Sun (2090 2156).  
● JazzFest Berlin runs from Thurs to Sun at the Philharmonie with Milt Jackson, David Friedman, Mose Allison and others. Lionel Hampton heads the bill on Sat (2548890).  
**OPERA/DANCE**  
Deutsche Oper Tomorrow and Fri: La forza del destino. Wed: Die lustigen Weiber von Windsor. Thurs: Die Zauberköche. Sat: Peter

Schaufuss' production of La Sylphide. Sun: Hansel and Gretel. Dec 2: Marilyn Horne song recital (3410 249). Staatsoper unter den Linden Reiner Goldberg sings title role in Tannhäuser on Thurs and Sun. Fri: Die Zauberköche. Sat: Il barbiere di Siviglia. Dec 5: Daniel Barenboim conducts new production of Busoni's Die Brautwahl (2004 782). Komische Oper Tonight's performance is Prokofiev's ballet Romeo and Juliet. Tomorrow: Così fan tutte. Wed: La bohème. Thurs: Giulio with Jochen Kowalski. Fri: Die schweigsame Frau. Sat: Swan Lake. Sun: Rienzi (2292 555).  
**THEATRE**  
A new production of Maxim Gorki's Vassa Sheshanova opens at Maxim Gorki Theater on Wed (208 2753). Bremen Shakespeare Company is in residence at Freie Volksbühne III. Dec 6 with a wide repertoire of plays by Shakespeare and others (681 3742). The Schauspielhaus has a new production of Jacob Lenz's play Catherina von Siena at the Probebühne, Currystrasse, and Botho Strauss' Schlussschö, directed by Luc Bondy at the main theatre (890023).

### BUDAPEST

● The State Opera repertoire includes Bellini's I Capuleti e i Montecchi (tomorrow), Adriana Lecouvreur (Wed) and Meisterlinder (Thurs and Sun). The Erkel Theatre has Die Zauberköche, Madame Butterfly and Hansel and Gretel (Central

Theatre Booking Office, Andrassy ut 18).  
● Concerto Harmonico gives a Bach recital tonight at Pest Concert Hall. Tomorrow and Thurs at Academy of Music: Berlioz programme with Hungarian State Chorus and Symphony Orchestra. Wed: Brantley Langbein conducts a Byron/Schumann programme. Next Mon: song recital by Denes Gulyas (National Philharmonia Booking Office, Vorosmarty ter 1).

### GENEVA

**CONCERTS/OPERA**  
Friedemann Layer conducts Orchestre de la Suisse Romande tonight and Wed in Victoria Hall, with music by BA Zimmermann and Beethoven (311 2511). The final performances of Die Frau ohne Schatten at the Grand Théâtre are tomorrow and Fri. Horst Stain conducts a cast including Wolfgang Schoene, Thomas Moser and Deborah Polaski (311 2311).  
**THEATRE**  
Geneva has two Russian companies in residence this week. The Comédie has Musical Theatre of Moscow in a musical adaptation of Mayakovsky's The Bedbug, daily from tomorrow till Sat (320 5001). Théâtre de Carouge has an Ovsyrovsky production by Gorki-Tovstogov Theatre of St Petersburg, daily from tomorrow till Sun (343 4343).

### MILAN

Teatro alla Scala 20.00 Dmitri

Hvorostovsky song recital. Dec 7: 1992-3 opera season opens with Franco Zeffirelli's new production of Don Carlo, starring Luciano Pavarotti (7200 3744).

### NEW YORK

**DANCE/OPERA**  
State Theatre New York City Ballet's annual presentation of the Balanchine production of The Nutcracker opens on Fri. The production runs till Jan 3, with extra matinee performances at weekends (870 5570). Dec 1-13 at Joyce Theater: Ballet Hispanico (242 0800). Dec 9-Jan 3 at City Center: Alvin Ailey American Dance Theater (581-1212).  
Metropolitan Opera Tonight's performance is La bohème, with Gabriela Benackova, Nancy Gustafson and Luis Lima (also Fri). Tomorrow and Sat afternoon: Lucia di Lammermoor with June Anderson. Wed and Sat evening: L'elisir d'amore with Kathleen Battle and Francisco Araiza (382 8000).  
Brooklyn Academy of Music There is a final performance tonight of the Philip Glass/Robert Wilson music theatre piece Einstein on the Beach (718-636 4100).

**CONCERTS**  
Avery Fisher Hall Kurt Masur conducts the next two weeks of New York Philharmonic concerts. This week's programme (Wed, Fri, Sat, next Tues) includes Beethoven's Fourth Symphony and Tchaikovsky's Second Piano Concerto (Elisabeth Leonskaja). Dec 6: Rostropovich conducts

National Symphony Orchestra. Dec 7: NYPO 150th anniversary concert (875 5030).  
Carnegie Hall Vladimir Ashkenazy conducts tonight's concert by Royal Philharmonic Orchestra: Bax's Tintagel, Barber's First Symphony and Shostakovich's Tenth. Sun: John Rutter conducts the England Symphonic Ensemble in Rutter's Requiem and Magnificat (247 7800).  
**JAZZ**  
Blue Note Tonight: Akira Tana and Rufus Reid. Tomorrow till Sun: Stanley Jordan Trio, showtimes at 21.00 and 23.30. Next week: Yellowjackets. Dec 8-15: Cheek Khan. Dec 29-Jan 3: Chick Corea (151 West 3rd St, 475 8522).  
Ballroom Brazilian singer-songwriter Gilberto Gil is in the middle of a run. Tues to Sat at 21.00 and 23.00 (253 West 28th St, 244 3005).  
Michael's Pub Vernel Bagneris, with pianist Gunnar Larsen, in a tribute to Jelly Roll Morton. Tues to Sat at 21.15 and 23.15 (211 East 55th St, 758 2272).

### VIENNA

**OPERA**  
Staatsoper Tonight's performance is Katya Kabanova. Tomorrow: La fille mal gardée. Thurs: La bohème with Cecilia Glas and Keith Uka-Purdy. Fri: Die Zauberköche. Sat: Maria Stuarda with Kette Ricciarelli and Alida Naté. Sun: Carmen. Next Mon: Nutcracker (51444 2960).  
Volksoper Tonight's performance is Lady Macbeth of Mtsensk

(repeated on Sat). The repertoire also includes Lehár's Graf von Luxemburg and Das Land des Lächelns, Kalman's Gräfin Mariza and Die Csárdásfürstin, and Don Giovanni (51444 3318).  
**CONCERTS**  
Musikverein Isaac Karabtschevsky conducts the Tonkünstler Orchestra in tonight's concert of music by Bruckner. Tomorrow: Vienna Schubert Trio plays piano trios by Shostakovich, Swarzenka and Pfitzner. Wed and Sat: song recital by John Shirley-Quirk. Fri: Beaux Arts Trio. Sat and Sun: Georges Prêtre conducts Brahms' German Requiem, with Barbara Bonney and Boje Skovhus (505 8190).

Konzerthaus Wien Modern, focussing this year on music by Dallapiccola, Xenakis, Henze and Schwertsik, winds up this week with performances by Orlando Quartet tonight, Ensemble Modern on Wed and Austrian Radio Symphony Orchestra on Fri. Other events include an orchestral programme tomorrow conducted by Sándor Végh, with works by Mendelssohn, Schubert and Haydn. Dec 2: Cecilia Bartoli. Dec 11: Malvyn Tan (712 1211).

### THEATRE

The Burgtheater repertoire includes a new production of Goldoni's The Impresario of Smyrna, directed by Claus Peymann. The next new production is Kleist's Das Käthchen von Heilbronn, directed by Hans Neuenfels, opening on Dec 12. Chekhov's Uncle Vanya opens at the Akademietheater on Dec 18 (51444 2218).

### European Cable and Satellite Business TV

(all times GMT)

#### MONDAY TO FRIDAY

CNN 0300-0330, 1230-1240 World Business Today - a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel 0700-0710, 1230-1240, 2230-2240 FT Business Daily 0710-0730, 1240-1300 (Mon, Thurs) FT Business Weekly - global business report with James Bellin 0710-0730, 1240-1300 (Wed) FT Media Europe 0710-0730, 1240-1300 (Fri) FT Euro Report 2240-2245 FT Report

Sky News 2030-2100, 2230-2300 FT Business Weekly

#### SATURDAY

CNN 0800-0830, 1800-1830 World Business This Week - a joint FT/CNN production

Super Channel 0630-0600 FT Business Weekly

Sky News 1130-1200, 1730-1800 FT Media Europe

#### SUNDAY

CNN 1030-1100, 1800-1830 World Business This Week

Super Channel 1900-1900 FT Business Weekly

Sky News 0130-0200, 0530-0600 FT Media Europe 1330-1400, 2030-2100 FT Business Weekly

# FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL  
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700

Monday November 23 1992

## Last push for Gatt

EUROPEAN COMMUNITY and US farm trade negotiators, not to mention their leaders, deserve credit for last week's agreement on farm trade. After six years, the most controversial single topic in the Uruguay Round has almost been settled. Much needs to be done, not only in farming, but still more in other areas of the negotiation. Yet the agreement on farm trade shows that where there is a will, a way can also be found. The remaining obstacles should yield to comparable determination.

US and EC negotiators will now need the support of the so-called Cairns Group of agricultural exporters. This they should obtain. Agricultural exporters may not see this agreement as a giant step for farm policy, but it is a huge one for the trading system. After 45 years of failure, farm subsidies are at last subject to internationally agreed limits.

Pressure will now fall on Japan and, to a lesser extent, South Korea. These highly successful exporters of manufactures will point to the central place in their culture played by the cultivation of rice. Negotiators who have given short shrift to the sensitivities of the rice farmer must ignore this special pleading. Completion of the farm package is almost the least of the problems. Less than two months remains if these negotiations are to be completed by January 20, when the American side leaves office. Little more than another month would remain before the package must be notified to Congress under the administration's "fast track" authority.

Acceptable package

It is important that nobody questions the "draft final act" put forward by Mr Arthur Dunkel, Gatt director general, a year ago. The US should, for example, avoid reopening protection of intellectual property. What would then be left is market access in goods and services, the core of trade liberalisation. Complex bilateral negotiations have to be completed. But the chances are good that a one third cut in tariffs, plus significant liberalisation of services - both, for the first time, on a global basis can be achieved.

The question now is not so much whether negotiators can reach the end of their negotiation. They can, at the price of giving up their holidays over Christmas and New Year. The question is rather

whether a politically acceptable package can be agreed.

In the first place, an unfeeling Japanese government might fail to agree to the required liberalisation on farm trade for rice. The question, however, is not whether the Japanese establishment wants to refuse, but whether it will dare to do so.

In the second place, the job of selling any package to Congress will fall to Bill Clinton. But he will almost certainly be able to do so if he wants and, in all likelihood, he will want to. If the worst came to the worst, Mr Clinton would probably be able to obtain an extension to the "fast track" authority as well.

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### EC agreement

In the third place, the EC might fail to agree to the package at all. In particular, France might decide that farm liberalisation should be vetoed under the "Luxembourg compromise". The constitutional status of that veto is uncertain. Yet without it, the deal will be subject to qualified majority voting. France would lose, unless it were to gain German support, which seems most unlikely.

Nobody can be unaware of the difficulties the French government faces. Nevertheless, it must know that this deal will demand few, if any, changes beyond those already agreed in reforming the common agricultural policy. Attempting a veto would also be against the interests of France. Economically, excessive subsidies to agriculture are as costly to France as to most other EC countries. Politically, veto of an agreement wanted by the majority of its partners, would deal the EC a blow from which it might not recover. Ratification of the Maastricht treaty by the UK might be impossible. If the principle of qualified majority voting were floated in traditional areas of EC responsibility, Mr Mitterrand's European policy would be in tatters. Europe is worth a farm deal.

With the end of the Uruguay Round at last in sight, success is desperately needed. This is not because the round will go near to solving all the problems of the trading system. Nor is it because figures of \$200bn for the increase in world trade are more than educated guesses. It is because a world with a functioning trading system offers hope of a better future to billions of people. What is needed now is a last big push.

## A new policy for housing

THE PROVISION OF £750m in the Autumn Statement for housing associations to buy up 20,000 empty homes is good news for the homeless families who will move into them. But the measure is unlikely to be enough to resuscitate the UK housing market which has 200,000 empty homes unsold. It is certainly not evident that house prices have yet stopped falling, a prerequisite for a successful market-clearing operation.

However, the nationalisation of 20,000 homes exposes an absurdity at the heart of the government's housing policy. On the one hand, the chancellor provides funds to increase the supply of rented housing by buying in homes (many of which have been repossessed because their former owners could not afford the cost of home ownership). On the other, the government is continuing to do all that it can to increase still further the level of owner-occupation. Local authorities are being encouraged to sell more of their housing stock into owner-occupation, so that they can spend the receipts on capital projects. To make it even easier to sell council homes, the government is promoting rent-to-mortgage schemes which allow tenants to become part-owners of their homes if they cannot afford owner-occupation.

### Mortgage arrears

Boosting home ownership while spending money to buy the homes of people who have failed to make a go of owner-occupation is not a rational housing policy. The level of home ownership in the UK - at 57 per cent of housing - is already higher than in most other advanced economies. The downside of this has become evident with the collapse in house prices. Over 200,000 homes have been repossessed in the last three years. More than 300,000 home-owners remain over six months in arrears with their mortgage payments. And there are 1.2m owners trapped in homes worth less than their mortgages. The growth in home ownership has been at the cost of an alarming rise in housing insecurity.

At the same time, the privately

rented sector has continued to decline. At 7.5 per cent of homes, private renting has sunk far below levels in most other advanced economies. That leaves most people with a stark choice between owner-occupation and the sordidness of council housing, often badly managed, in poor condition and rationed by queuing. It is hardly surprising that, faced with this choice, so many have become owner-occupiers.

### Greater balance

The government needs a new policy for housing that would create a more balanced market and offer real choices in tenure. Central to this would be to deal with the tax breaks which make owner-occupation so attractive, principally mortgage interest tax relief and the exemption from capital gains tax for homeowners. These tax subsidies for owner-occupation make it all but impossible for the private sector to charge rents which would give a reasonable return on capital.

Getting rid of mortgage interest tax relief would be politically acceptable only if it was phased out when interest rates were falling, so that - in the short term, at least - no-one had to pay higher mortgage payments than before. Sadly the opportunity to begin that process has been lost as interest rates have more than halved in the last two years; but further falls in rates should begin the phasing-out process.

Rather than eliminating the exemption on capital gains tax for homeowners, it would be simpler to extend the same treatment to the private rented sector. Other changes to the taxation of rent - including greater scope for claiming allowances and setting off business losses against rental income - might also be necessary to revive the private landlord.

Spending £750m on such incentives for private renting might not immediately rehouse 20,000 homeless families. But by addressing the fiscal imbalance in favour of owner-occupation, it would be a step towards improving housing choice, the absence of which is a leading cause of the present housing crisis.

Free trade, one of the greatest blessings which a government can confer on a people, is in almost every country unpopular," wrote Thomas Macaulay in 1834.

The US and EC negotiators who on Friday settled a long-standing dispute over EC subsidies to oilseed farmers, and made a potentially historic breakthrough on their two-year dispute over reform of Europe's farm subsidies regime, may find comfort in Macaulay's words as they read of French farmers rampaging across their countryside in defence of subsidies that have distorted the agriculture sector for decades.

Friday's compromises, which defused an imminent and possibly ruinous trade war, have also paved the way for resumption of long-stalled multinational negotiations aimed at ambitious and unprecedented reform of international trade.

This so-called Uruguay Round aims for the first time not just to liberalise farm trade; it would reform the quota-blighted trade in textiles and garments; open markets up to trade in services; impose rules protecting patents and copyrights; cut tariffs across the world by at least 30 per cent; and strengthen rules for settling international trade disputes.

"The real victory is for international trade," said Mr Ray MacSharry, the EC's agriculture commissioner, who - along with Mr Edward Madigan, his US counterpart - played a pivotal role in settling the long-standing farm trade dispute. But neither he, nor any of the other trade negotiators involved in Friday's breakthrough, is so disingenuous as to believe all will now be plain sailing.

The first and most severe problem facing trade negotiators is one of time. The Uruguay Round, launched in the coastal resort of Punta del Este six years ago, should have been completed two years ago. Deadlock on reform of farm trade has blocked progress in all of the other areas since the end of 1990. But the package must be complete before March 1 next year, when the US administration's "fast track" authority expires. Uruguay Round negotiators know they must have the package complete by March 1 or face the danger of it being torn apart by the US Congress.

Settling the many outstanding Uruguay Round issues "will be a day and night exercise," Mr Arthur Dunkel, director general of the General Agreement on Tariffs and Trade (Gatt), the trade watchdog that has the task of negotiating agreement between the 108 countries participating in the round.

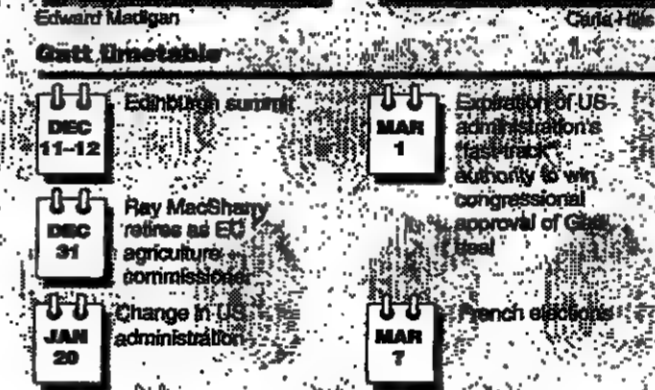
"The first decision we have to make is the decision to conclude the round," says Mr Dunkel. "If we have this decision, then one way or another, we can be sure the work will be done." A focal point for final agreement is Mr Dunkel's "final act", an inch-thick draft settlement which he published in December last year in a bid to forge a breakthrough. Much of the detail of an agreement is already documented in the "final act", and Mr Dunkel will be fighting hard to ensure speedy progress by limiting changes to the minimum possible.

The first task of negotiators gathered back in Geneva will be to win wide international backing for the US-EC farm trade deal. Particularly important here will be the Cairns Group of farm exporting nations, which includes countries such as Australia, Canada, Argentina and New Zealand. It was the walkout

The EC and US have compromised on farm trade, but the Uruguay Round is a long way from completion, writes David Dodwell

## Now the tough talks can begin

### The architects of accord



should be of EC origin. Other member states want between 40 and 60 per cent. There are strict limits on video and film production and distribution. The US will not be alone in pressing the EC for a significant market-opening offer in this sector. Maritime services has attracted a great deal of controversy, but it is uncertain whether reform of "cabotage" arrangements - allowing foreign ships to carry cargo between two ports inside any one country - will be possible. Some liberalisation of international shipping will be pressed for, along with action against "closed" shipping conferences which allow shippers plying a route to block new entrants.

Government procurement con-

tracts have long been closed to international competition, and again have been an important target for US trade negotiators. Reforms will be resisted by powerful domestic industrial lobbies, particularly in the construction sector. Even the US could face local controversy, where the "Buy America" act, under which state and local authorities must buy US-made products where available, is widely used to ensure government contracts go to local companies.

The third task in Geneva - and perhaps the most time consuming - will be to negotiate tariff cuts across a wide spectrum of industrial and non-industrial goods, and to press governments to replace non-

tariff barriers to trade (such as quotas) with simple tariffs.

These market-access negotiations are particularly cumbersome because they have to be negotiated bilaterally between all 108 countries involved in the Uruguay Round.

The overall aim is to obtain average tariff cuts of at least 30 per cent, but difficult issues have yet to be resolved.

Zero-for-zero versus tariff peaks: the US is pressing for the EC to eliminate entirely its tariffs on a number of goods - particularly in the chemicals and pharmaceuticals areas. At the same time, the EC has been unwilling to agree these zero-for-zero deals unless the US agrees to attack some of its high tariffs on products such as glassware and ceramics. EC officials appear confident that compromise is possible. Rice imports for Japan and South Korea: this issue falls at the intersection between farm trade and market access. Up to now, Japan and South Korea have kept their local rice markets firmly closed, bowing to pressure from vocal farm lobbies which are potentially more violent even than French farmers. Following US-EC agreement to liberalise farm trade, these countries will come under pressure first to open at least 3 per cent of their markets, and then slowly to cut tariffs - which may initially be set as high as 700 per cent.

Bananas have become a controversial issue for Europe, where preferential import quota regimes targeted at former French and British colonies have attracted criticism inside the Gatt. Demands for comprehensive replacement of quotas with tariffs will force these quota arrangements to be dismantled, arousing consternation particularly among small Caribbean island exporters. Banana trade may appear to be an arcane area for controversy, but its symbolic importance is likely to be great if Japan or Korea could use it to prevent concessions on rice trade. If the only way to force Japan and Korea to open up their rice markets is to accept tariffs in banana trade, the EC may have no choice but to compromise.

Political confusion across Europe and the potentially lame-duck status of the outgoing Bush administration in the US are unlikely to make negotiations any easier. So far, President-elect Bill Clinton has carefully kept his own counsel on trade issues, leaving the outgoing administration with sufficient residual authority to keep negotiations going. It would take only a few ill-considered comments from Mr Clinton, perhaps on environmental or labour issues - to pull the rug from under Mrs Carla Hills and her team of US trade negotiators.

Similarly in Europe, it remains to be seen whether the French government would trigger internal and international crisis by trying to veto last week's farm trade compromise.

But perhaps as sensitive an issue as any is what the Japanese government decides to do. So far, the US-EC dispute has sheltered the Japanese from any difficult decisions. Significant concessions in the coming weeks will be called for from Japan, and if it fails to deliver, it might not only scupper the Uruguay Round, but also lay the ground for a potent anti-Japanese backlash, particularly in the US.

As Mr Dunkel said after talks in Washington last week: "The hour of Japan has come."

### Samuel Brittan

## Lessons of Iraqgate



The clearest aspect of the Iraqgate affair is the abuse of executive power, all too characteristic of the oversecretive and overcentralised UK government machine. Corporate executives of Matrix Churchill risked a criminal conviction and possible imprisonment because ministers tried to prevent official documents being used in their defence. We shall need to wait for Lord Justice Scott's report to know who bears the main responsibility. Meanwhile there is an aspect of the affair which does not depend on the law and which was pointed out by Mr David Sowers in a letter to the Financial Times published on November 19 ("Arms to Iraq: complex objectives and high costs"). This is that Mr Alan Clark, who blew the whistle on the whole affair, stated that his job as a minister of trade was to "maximise exports despite guidelines which I regarded as tiresome and insidious".

The full fatuousness as well as immorality of the policy was brought out in the letter underneath by Mr Colin Grant-Wilson, who observed that "Britain almost certainly did not sell the arms, but in effect gave them to the Iraqis". For there is virtually no prospect of the payment by the Iraqis, in which case the Export Credit Guarantee Agency would have to foot the bill. Some economic fallacies mainly involve a waste of national resources. Others, such as the obstinate defence of agricultural subsidies in the Gatt round, are a threat to international prosperity as well. But the ones involved in the government support for the arms trade are of an altogether different degree of evil. For they lead to the arming of rival dictators, enhancing their power of aggression and threaten-

ing both international peace and eventually bringing about the death and mutilation of young soldiers from the arms-exporting countries themselves.

Yet it all arises because of the fundamental mistake of supposing that it is the government's job to maintain not merely full order but jobs in the whole economy, but in specific industries as well - the belief that if the government does not ensure orders for industry X by hook or by crook, the men and women employed will be thrown on the scrap heap and the other resources involved permanently wasted. It is a first cousin of the "lump of labour" fallacy which

maintains that we are always on the verge of economic saturation and that there will soon be nothing left for the available labour force to do.

State support of the arms trade is a near perfect fusion of the right-wing belief in "my country right or wrong" and the left-wing belief in industrial intervention and subsidy. Some would say that this is an exact description of French foreign and economic policy; but the English-speaking countries do not have much to shout about either.

Obviously unregulated markets will not produce international harmony where weapons of destruction are concerned. If businessmen find it pays to sell arms to unscrupulous rulers, they will do so. The role of government intervention - which is in so many other areas needed to be internationally organised by the principal industrial powers to be

effective - should be to reduce the scale of such arms sales. Yet in practice its role is often to stimulate sales further than would be the case under pure laissez-faire.

The industrial support fallacies are less obviously fallacies during a recession. But it still remains true that 80 to 90 per cent of the workforce have jobs and that most of those who lose them eventually find alternative occupation of one kind or another. Moreover arms support is not an emergency anti-recession policy, but is all-too-often long term in nature and does not ease off when the danger is overheating and inflation.

Indeed, it is even worse than that. No sensible market liberal would deny that there are human, economic and social costs in running down particular industries rapidly and relocating employees. But these costs are magnified when the sectors in question are inflated by government support to much higher levels than would otherwise obtain. So the more that arms-exporting industries are artificially puffed up, the more painful the process of reducing them to normal size.

Above all, politicians and officials who see international trade as itself a form of warfare between Western countries do not appreciate that exports are - like investment - a cost and not a benefit. They only do good if they bring returns. If the exporting countries have to provide the money to pay themselves, then it is a ludicrous form of employment support. It would be much better for governments to use the money to make direct cash payments to people who would otherwise be working in the arms industry.

So far from being a symptom of untrammelled market forces, much of the international arms trade is interventionism gone mad. Do I need to underline the moral any further?

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# After-shocks shatter currency union illusion

Yesterday's realignment of Europe's exchange rates emphasises the split between hard and soft currencies, says David Marsh

If there were still any optimists who thought the European exchange rate mechanism (ERM) provided a quick route to monetary stability, yesterday's currency realignment has now buried this illusion for good.

Shattered, too, has been the notion - still entertained by some European finance ministers during last year's Maastricht treaty negotiations - that all 12 EC countries would somehow arrive at economic and monetary union (EMU) at once.

The 6 per cent devaluation of the Spanish peseta and the Portuguese escudo follows two realignments of the ERM in September, resulting in the floating of sterling and the lira and the first devaluation (by 5 per cent) of the peseta.

The renewed upheaval emphasises how the system of European exchange rates has been split into a "hard" nucleus built around the D-Mark, and outer layers of "softer" currencies. It has confirmed a central precept: EMU, it comes about, will take place at two (or several) speeds.

The degree of European disarray also places a question mark over whether even a smaller group of hard currency countries - France, Germany and the Benelux countries - will accomplish a scaled-down EMU by the Maastricht target date of 1999. Scenarios have been underlined in the past few days by the man who, more than any other, holds the key to the ERM's future, Mr Helmut Schlesinger, president of the Bundesbank.

Mr Schlesinger's hold over Bundesbank decision-making has recently been strengthened. This reflects organisational changes lowering the number of seats on the Bundesbank's sometimes fractious council, shifting the balance of power firmly towards Mr Schlesinger's Frankfurt-based directorate and away from the regional board members.

Mr Schlesinger's overriding goal is to ensure that, by the time he retires next September, Germany is firmly on track for a 2 per cent inflation rate in 1994. The present underlying level of German inflation, Mr Schlesinger believes, is still 4 per cent.

The central bank president wants to avoid a repeat of the September experience, when the Bundesbank explicitly traded a cut in interest rates for the lira devaluation at the weekend of September 12-13. The Bundesbank seems likely, therefore, to keep its discount and Lombard rates unchanged until the end of the year.

Mr Schlesinger's toughness



The hard and soft divide

1991 share of GDP	
Hard currencies	Soft currencies
Germany 33.0%	Italy 13.2%
France 28.0%	UK 12.2%
Netherlands 16.2%	Spain 8.2%
Belgium 12.2%	Greece 1.2%
Denmark 2.1%	Portugal 1.2%
Intermediate	
Ireland 1.2%	

has implications for both the "hard" and the "soft" European currencies. The ERM member most likely to come under immediate pressure is the Irish punt, left unchanged yesterday ahead of this week's Irish general election. Additionally, the French franc will not be immune to fresh jitters during the run-up to France's March parliamentary elections.

The franc benefited greatly from Bundesbank support during the previous ERM turmoil, weathering the storms after the expenditure of FF160bn (£19.6bn) in currency interven-

tion. However, in contrast to previous ERM realignments in the mid-to-late 1980s, speculators recently have earned sizeable profits by forcing governments to make relatively large changes in currency parities. The strength of the franc's vulnerability - especially if doubts grow about the effect on French competitiveness of the devaluations by some of France's biggest trading partners. Since the lira realignment on September 12-13, the French franc has registered an

unprecedented effective revaluation (as of last Friday) of 16 per cent against sterling and of 13 per cent against the lira.

In a climate of shrinking European growth, this represents a substantial challenge for French exporters - adding to fears that the devaluation round may not yet have run its course.

The ERM upheavals mark a contrast to the calm which went before. During the 54 years before the September lira devaluation, the ERM experienced only one technical realignment. Since 1989, three

countries - Spain (June 1989), Britain (October 1990) and Portugal (April 1992) - joined the ERM with 6 per cent fluctuation bands. Two non-EC countries, Sweden and Finland, pegged their currencies to the European currency unit (in May and June 1991 respectively) backing up efforts to join the EC.

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## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

### Pressure to hold down wages

From Mr Peter Ingram.

Sir, Your editorial ("The gamble on UK pay", November 15) is correct to identify wage growth as the source of the economy's current weakness. You suggest that determination from management in the private sector is needed to contain wage rises. This downward pressure has, over the last two years, been much in evidence as private-sector companies, particularly those in the traded sector, contained costs under the discipline of the ERM. With this constraint relaxing, talk of initiatives directed at co-ordinating wage outcomes and an "income policy by exhortation" is already re-emerging.

The experience of the last decade suggests that such proposals would be judged as unacceptable by management in the private sector, anxious to retain control of the vital lever of industrial relations that wage movements represent.

As a result, any proposed initiative designed to moderate wage growth must allow for the flexibility of outcomes required by differing company circumstances. The best opportunity to enjoy this discretion in wage settlements, but around a lower nominal average increase in earnings, might best be provided by pressure applied through pension fund managers and insurance companies. At this level any discussion of a collective approach might be better appreciated while the institutional investors would also be best placed to regulate such a mechanism through the application of pressure on their shareholders.

Given the structure of corporate control in Britain, if there exists a need for exhortation on pay or co-ordination of wage awards, it should emerge at this level. This would provide the attraction of economically consistent wage awards combined with the scope for flexibility while enabling the private sector to control itself.

Peter Ingram, lecturer in economics, University of Surrey, Guildford, Surrey GU2 5XH

### East Europe: a 'remarkable lack of vision' shown by the west

From Dr Helene Seppin.

Sir, It is all very well for Edward Mortimer (Foreign Affairs, November 18) and his American colleagues to denigrate west Europeans for failing to respond to the challenge of events in the east. US condemnation of the lack of west European leadership may be fully justified in the case of the Yugoslav crisis. But after being the dominant western partner in east-west affairs for decades, the US, too, has shown a remarkable lack of vision in the face of the collapse of communism.

True, President Bush cleverly "steered" through the disintegration of the Soviet Union. This meant doing absolutely nothing in the face of the collapse of Soviet power.

The general passivity paid off in 1989-90. In those "glorious" days, Chancellor Kohl's warnings of Soviet economic collapse and the widespread repercussions this would have in the world economy fell on deaf American and Japanese ears. Let us not forget that, between 1989 and 1991, Germany provided an estimated 56 per cent of all financial aid to the Soviet Union and 32 per

cent of all aid to the rest of eastern Europe. German calls for G-7 "burden-sharing" in the reconstruction of the east were continuously blocked by the Americans and the British who argued that Gorbachev had holes in his pockets.

The resulting inaction has created even larger holes in President Yeltsin's pockets. As Russia appears to slide into chaos, the pursuit of the US "non-policy" toward the former Soviet Union (and I include here the work of the International Monetary Fund which set the Russian government impossible targets) is not only callous but extremely short-sighted. It is now left to Jeffrey Sachs, Harvard professor and foremost western economic adviser to Mr Yeltsin's government, to accuse President Bush of conducting a "vacuous" foreign policy.

Short-sightedness in politics appears to be a general western malaise. Helene Seppin, 174 Huntingdon Road, Cambridge CB3 9LB

From Mr Stanley Crossick. Sir, Edward Mortimer was right to criticise western

Europe's failure to respond to the challenge of events in the east.

A Marshall Plan type of initiative is, of course, needed to help the eastern Europeans achieve economic and political stability. Such an initiative is also needed in the interests of western Europeans. Without it, further disintegration in the east will inevitably lead to mass immigration to the west.

The success of American companies in Europe owes much of its origins to the post-second world war Marshall Plan, a combination of brilliant conception and execution by government in partnership with industry. A concerted and co-ordinated approach to eastern Europe could lay the foundations of western - and indeed global - economic recovery.

To achieve this, the present western leaders must match those earlier American leaders in their far-sightedness and willingness to take a long-term view. Stanley Crossick, chairman, Belmont European Policy Centre, Brussels

### Exactitude in home improvement pay-back

From Mr Ivor Duarte.

Sir, I must take David Lascelles to task for a serious arithmetical inexactitude (Energy Efficiency survey: "Overstated and under-insulated", November 17). In assessing the pay-back time on his potential home improvements, he has completely ignored "opportunity cost" - that is, the loss of interest on the capital expended. This is a

basic economic factor, and while one might tolerate such a naive approach from a DIY magazine, it is not tolerable in the examples given. In the examples given, if his total investment is £3,000 then the lost interest, even at only 7 per cent, amount to £210 a year. This means that the true saving is £206 at the moment, not £516, and the pay-back time is not less than six years, it is more than 10. If capital is bor-

rowed, the return will probably be negative.

Reasonable insulation improvements are indeed desirable and usually economical, the notable exception being double-glazing, for which the pay-back time - after opportunity cost - is never. Ivor Duarte, 169 Green Lane, Shepperton, Middlesex TW17 8DZ

### Independent central bank not complete answer

From Mr Walter Grey.

Sir, Mr Thomas Welsh (Letters, November 17) is not alone in endorsing the "convincing" case for an independent central bank conducting monetary policy in place of vote-seeking politicians.

Such an institutional reform, however, is not sufficient for

greater price, and hence general economic, stability. What, at the official level, is also necessary is fiscal balance, or neutrality, maintained over the length of the business ("economic") cycle - if an independent central bank, dedicated to the maintenance of price stability at all stages of the politi-

cal cycle, indeed permits the business cycle to persist. Without this, and without an appropriate fiscal/monetary policy mix, the goal of economic stability, including sustainable growth, is hard to achieve. Walter Grey, 12 Arden Road, Finchley, London N3 3AN

## OBSERVER

### No laughing matter

■ Every one knows that De Beers' chairman Julian Ogilvie Thompson is the most powerful man in the diamond business. So obviously he was top of the list when the Diamond Insight newsletter carried out a light-hearted survey asking people in the trade: "What is the first thing that comes to mind when you hear the word diamond? And what is the second?"

Alas, we shall never know what Ogilvie Thompson thinks. While others replied, loading their comments with words such as love, beauty, and eternity, a De Beers PR flunky took the matter much more seriously.

"Having discussed the contents of your letter with my colleagues, it would appear that the answer which Mr Ogilvie Thompson would give to your question would distort the result of your survey, given his position and contact with diamonds and the diamond industry. It is, therefore, with regret that we are unable to participate in your survey."

Things may be gloomy in the diamond market, but surely they are not bad enough to rob De Beers of its sense of proportion.

### No joke

■ Even ministerial speechwriters are not immune to spending cuts and job losses it seems. How else can one explain the repetitive nature of Michael Heseltine's speech-making in the current round of annual dinner?

Last Wednesday, he skillfully negotiated the annual dinner of the Machine Tool Technologists Association - a minefield if ever there was one, given current events. A

day later he was on safer ground at the Institution of Mechanical Engineers' bash. Somebody, perhaps, should have told the great communicator that machine tool men and mechanical engineers are not as different as they sound.

Most of the jokes and stories were the same. In the good old days, Hesza told both audiences, it used to be easy to write a speech because you could simply ring up the Conservative Central Office joke department. Now, sadly, the department has been closed because there's nothing to laugh about any more.

### Sound advice

■ Having trouble writing the company mission statement? Observer has just stumbled on the following maxim which has presumably been around for many a year.

Turnover is vanity, profit is sanity and cash is reality.

### Merck ado

■ Once upon a time it was bankers who were always falling out with each other on who was the biggest in the world. Now Observer hears that corporate egos at Merck have been



# WORLD COMMERCIAL VEHICLES

SECTION III

Monday November 23 1992

In 17 years the number of truck makers in Europe has shrunk from 25 to 10 last year. As losses mount remorselessly, a further wave of restructuring appears to be unavoidable. Kevin Done examines an industry which, throughout the world, faces spiralling development costs and rising expenditure to meet tougher environmental regulations

## Squeeze tightens as sales plummet

THE vice is tightening inexorably on truck makers in western Europe as sales fall for the third year in succession, with little prospect of relief next year.

As several leading producers face mounting losses, the industry is again cutting jobs, and a further wave of restructuring appears unavoidable in a sector where the number of truck makers has already shrunk from 25 in 1975 to 10 last year.

In North America, demand for heavy trucks (above 15 tonnes) has begun to rise after three years of declining sales, but margins remain tightly squeezed, and most producers are still losing money. The heavy truck industry in the US has been deep in loss for five of the past 11 years. It has made net losses over the past decade, and the industry was working at only 55 per cent of capacity last year.

The Japanese truck market has also weakened in the past two years. Sales of trucks fell by 6.9 per cent to 179,000 in the 12 months to the end of March this year, and Hino, a leading Japanese heavy truck maker, has recently cut its 1992/93 forecast of overall domestic truck demand to 142,500 from an earlier forecast of 155,000, a 20 per cent fall from the previous year.

Nissan Diesel, one of Hino's main domestic rivals, fell into loss in the six months to the end of September and is not paying an interim dividend, while Hino itself recently announced a 59 per cent fall in pre-tax profits in the same period.

In all three regions truck makers are facing spiralling product development costs and rising expenditure to meet tougher environmental regulations, a burden which is increased by the lack of harmonisation of regulations and testing procedures between Europe, Japan and North America.

In the European Community truck makers are also confronting the advent of the single market, which is expected to prove a mixed blessing for the commercial vehicle industry. According to Werner Niefer, president of Mercedes-Benz, the automotive subsidiary of Daimler-Benz of Germany and the world's biggest truck maker, the volume of transport in Europe is expected to grow by 40 per cent during the next 10 years. (Roads account for more than 65 per cent of goods transport in Europe.)

The promised growth in transport volumes in the single market should be accompanied, however, by a far-reaching deregulation of transport markets, which is expected to intensify competition drastically in the transport industry, with a considerable increase in the productivity of haulage operators rather than in the number of trucks in use. As more power is concentrated in the hands of larger transport groups, they could succeed in driving down prices.

The European truck industry has watched with trepidation the impact of deregulation in the US which over the past decade has pared truck producers' margins to the bone. The commercial vehicle industry - and in particular the truck sector - is notorious for its exaggerated trade cycles, and while North America appears to be finally emerging this year from the trough of its latest recession - heavy duty truck sales dropped by 36 per cent from 169,000 in 1988 to 108,000 in 1991 - the west European market is still on the downward slope with an uncertain braking distance.

The alarm signals of recent weeks show how the squeeze is tightening.

Mercedes-Benz, the overwhelming leader of the western European truck market with a 31 per cent market share last year, announced earlier this month that it was postponing indefinitely its plan to build a new 40,000-a-year truck plant in eastern Germany.

It blamed the decision on three main factors: the structural problems facing the Euro-

pean commercial vehicle industry, which had become "visible in all clarity" as a result of the economic downturn; the changed medium-term outlook with falling demand for light and heavy trucks; and the clearly reduced prospects for the development of eastern European markets.

Last year, Mercedes-Benz commercial vehicle production reached a record level at 296,000, but now its German plants are already facing extended short-time working in the first half of next year.

Volvo's truck operations have slumped into loss this year in the face of lower capacity utilisation in Europe, substantially higher product development costs and inadequate margins in North America.

It is in loss in spite of an earlier crisis package announced in 1990 aimed at cutting annual costs by SKr1.5bn by the end of this year.

It closed one of its US plants at Ogden, Utah, last year and cut its workforce worldwide during 1991 by 1,150 to 18,100. French trade unions warned this month that Renault Vehicules Industriels, the French truck maker, was preparing to announce shortly up to 2,500 job losses, amounting to nearly 15 per cent of the workforce. RVI has plunged into a big loss this year from the minimal net profit of FF23m made in 1991. The results are a far cry from the net profits of FF19m and FF930m achieved in 1988 and 1989. It has introduced temporary lay-offs, averaging seven days a month.

Scania, the Swedish heavy truck maker and hitherto the most profitable European producer, is cutting 875 jobs at its Swedish and Dutch plants by early next year, after already cutting the workforce at its European production plants by 1,500 since 1989.

The loudest distress signals have come from DAF, the Dutch commercial vehicle maker, which is now in its third year of heavy losses in the face of the deep recession in the UK, its largest single market, where truck sales have more than halved since 1989.

DAF is the most likely next victim of the inexorable restructuring in the European truck industry. For more than three months it has been negotiating with Mercedes-Benz over a potential strategic alliance.

DAF is seeking a partner to provide fresh equity to bolster its battered balance sheet, as well as collaboration to allow it to share products, new product development costs and plant capacities.

Mercedes-Benz has made no secret of the fact that it expects the process of concentration in the European truck industry to proceed apace to the end of the decade.

"By the end of the 1990s we will have three supranational strategic alliances in Europe, each with one major company at its core," said Helmut Werner, chief executive-elect of Mercedes-Benz, in an earlier speech.

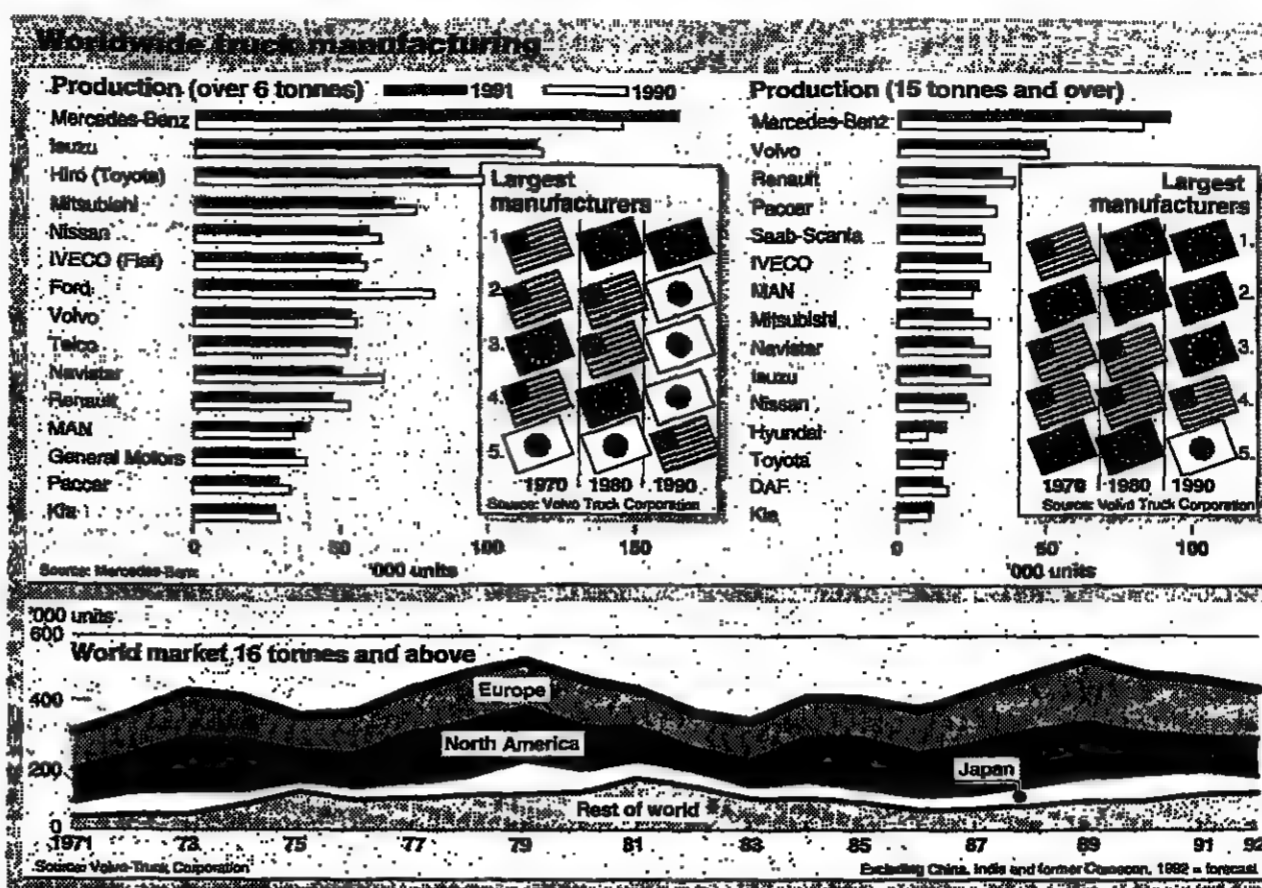
Much larger producers than DAF had already concluded that times were becoming too tough to go it alone. In the most significant realignment of forces to date Volvo of Sweden and Renault of France have embarked on a far-reaching alliance which includes 45 per cent cross-shareholdings in each other's truck operations.

Iveco, the commercial vehicles subsidiary of Fiat of Italy which was originally formed from the merger of smaller Italian, French and German truck makers, added management control of Ford's UK-based truck operations in the second half of the 1980s. Itself in loss, it is now trying to rationalise Spain's loss-making Enasa, the formerly state-

owned maker of Pegaso trucks, acquired at the beginning of 1991.

While the big groups consolidate, the minnows continue to disappear.

The latest casualty is AWD, the small privately-owned UK truck maker, which was forced to call in the receiver this summer after failing to make a go of General Motors' former heavily loss-making Bedford truck operations.



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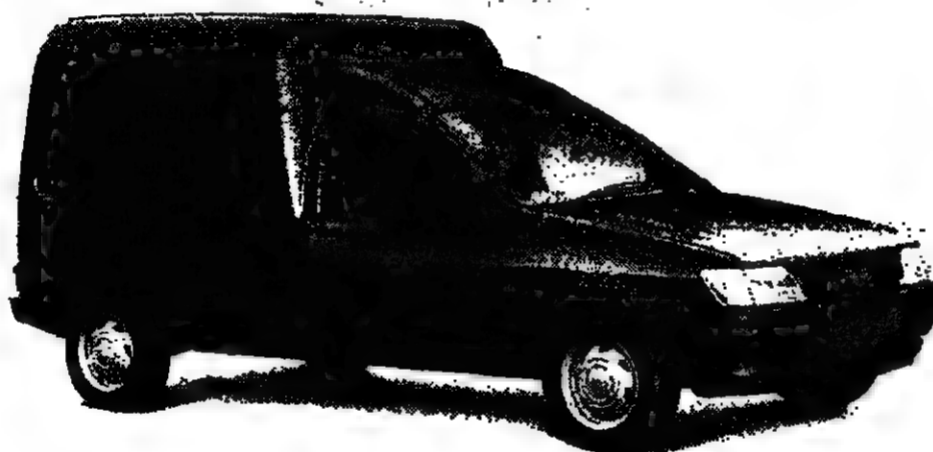
■ Signs of recovery in the US; Profile: Navistar International

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■ An exhausting schedule of technology  
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Tougher environmental regulations reviewed

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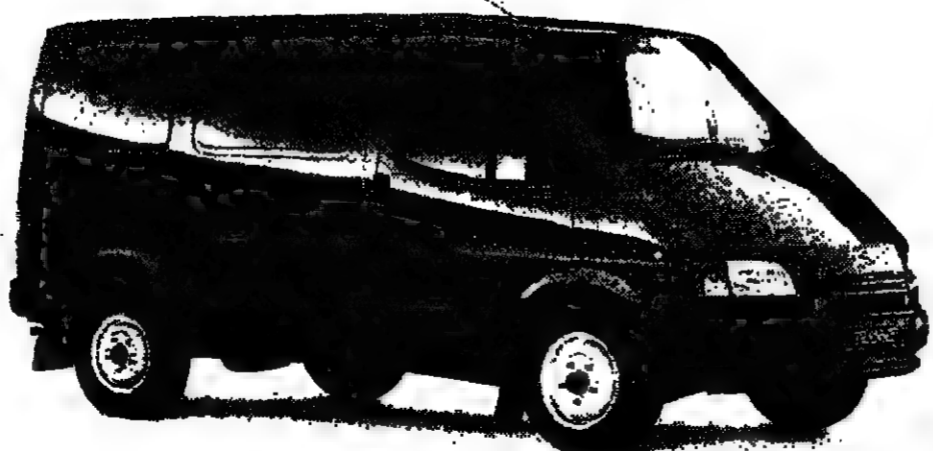
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Deposit (initial instalment + VAT)	£2355.31	£2433.45	£2933.04
Number of Payments	48	48	48
Monthly Payment	£182.33	£188.33	£226.69
Weekly equivalent Payment	£42.08	£43.46	£52.31
APR %	12.7%	12.7%	12.7%
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\*Based on Maximum Retail Price as at 17th August. Offer available until Dec 31st. \*\*Weekly equivalent payments based on Ford Credit's finance programme available until 10th December. Ford Credit plc, The Drive, Brentwood, Essex CM13 3AR. †Credit is provided subject to status. ‡Business user customers only. †Low rate finance not available to fleets running 25 vehicles or more, or 1993 Escort vans. \*On the Road price based on Maximum Retail Price (Courier Pop and Escort Pop as at Oct 1st, Transit as at Aug 17th) less programme discount, plus delivery, number plates and road fund licence. 1992 models (Coursers and Transits built prior to Aug 17th, Escort vans built prior to Aug 24th) subject to availability.

# COMMERCIAL VEHICLES 2

Kevin Done looks at market prospects in Europe

## Outlook remains gloomy

THE western European truck industry is in its third year of decline, and the short-term outlook remains gloomy with forecasts suggesting a further significant drop in demand in 1993.

The latest forecast by DRI, the London-based automotive analysts, suggests that truck sales (6 tonnes gross vehicle weight and above) across the main 15 markets in western Europe will have fallen by 10.5 per cent this year to around 246,000.

There is little relief in prospect in 1993 with truck sales forecast to fall again by as much as 8 per cent to 226,000, before a modest recovery begins in 1994.

While truck sales have been falling in Europe overall, the extraordinary boom in Germany in the wake of unification has masked the speed of the decline in other markets.

The share taken by Germany

There is little relief in prospect in 1993 with truck sales forecast to fall again by as much as 8 per cent to 226,000

In the overall western European truck market has virtually doubled from around 20 per cent in 1989 to around 40 per cent this year. According to DRI figures truck sales (6 tonnes and above) in Germany increased by 22.3 per cent in 1990 to 69,000 and jumped again by 54.4 per cent in 1991 to 106,000.

Supported by the surge in Germany, truck sales overall in western Europe fell by only 7 per cent from the peak of 296,000 in 1989 to 275,000 in 1991. Excluding Germany, however, truck sales in the rest of Europe have plunged in the past two years by 29 per cent.

Since mid-1992 the market has begun to turn downwards in Germany, too, after the last two years of record sales, however, and there has been little sign of a recovery elsewhere in Europe to compensate for weakening German sales.

With such a wide disparity between the performance of different markets, truck makers have been subjected to

sharply contrasting changes in fortune with most of the benefits accruing to Mercedes-Benz and MAN, the two German truck makers which control around three-quarters of their domestic market.

Mercedes-Benz captured a third of European sales in 1991 and MAN has boosted its share from 8 per cent before unification to more than 12 per cent this year.

The scale of the impact of German unification on the truck industry coupled with the decline in demand in other European markets can be judged from the fact that eastern Germany alone has emerged as Europe's second biggest truck market in the first eight months this year.

According to Automotive Industry Data, the UK-based automotive industry analysts, new truck sales (above 3.5 tonnes) in eastern Germany alone totalled 26,690 in the first eight months this year compared with 25,618 in France and only 20,633 in the UK.

The UK, Spain and the Scandinavian countries, which led the present decline into recession, have suffered the largest falls since the European market peaked in 1989.

Truck sales in the UK have dropped by more than 50 per cent in the past three years, while the Spanish market has fallen by 43 per cent, and Sweden now has a market only a third of its former size.

According to the DRI European truck forecast report published this month "the summer months have brought a significant deterioration in market conditions to many of the European markets... turmoil in European currency markets, deteriorating national economies and increasing uncertainties over the prospects of any economic recovery in the short-term have added to the mood of gloom and general unease in the truck industry."

"The glow of German unification and the boom it injected into the market is fast fading away as the market faces readjustment to lower levels of demand."

The prospects overall for European truck sales next year have deteriorated as forecasts have been revised downwards

### Western European light commercial vehicles Sales forecast - up to 6.0 tonnes (000s)\*

	1990	1991	1992	1993	1994
West Europe total	1,941.3	1,986.6	1,908.1	1,294.7	1,277.4
% change	-11.5	-11.5	+1.9	+1.3	+4.3
Germany**	163.6	129.7	179.1	149.8	143.1
% change	+12.0	+25.3	+38.0	-16.4	-4.4
France	370.6	329.0	301.2	317.4	337.1
% change	-6.0	-11.5	-8.2	+5.4	+6.2
UK	236.1	163.4	152.0	168.5	184.3
% change	-24.1	-29.0	-7.0	+10.9	+9.3
Italy	147.5	147.8	144.8	143.7	150.2
% change	-7.4	+0.0	-2.1	-0.7	+4.5
Spain	191.1	159.7	178.2	168.9	168.3
% change	-17.0	+12.3	+4.8	+3.1	+3.7

### Western European trucks - above 6 tonnes Sales forecast (000s)\*

	1990	1991	1992	1993	1994
West Europe total	278.4	275.2	246.3	226.9	236.1
% change	-5.9	-1.2	-10.5	-8.2	+4.4
Germany**	66.3	105.5	87.0	74.5	63.6
% change	+22.6	+54.4	-8.1	-23.2	-14.3
France	48.4	43.9	35.3	37.1	43.8
% change	-3.2	-11.1	-17.3	+2.4	+14.7
UK	44.7	29.8	25.0	32.7	37.4
% change	-12.7	-33.4	-2.5	+23.6	+14.5
Italy	32.8	25.3	30.1	18.0	22.8
% change	-2.1	-21.1	+20.5	-40.4	+26.7
Spain	34.8	38.4	18.2	18.6	20.2
% change	-22.3	+10.3	-52.6	+2.6	+11.3

\* 1990-1991 actual, 1992-1994 forecast. Forecast for 14 markets  
\*\* From 1991 Germany total includes eastern Germany  
Source: DRI European Trucks Forecast Report

### Western European truck sales (over 3.5 tonnes) January-August

1991		1992		
Makes	Units	Market share %	Units	Market share %
Mercedes-Benz	67,788	31.8	65,050	32.5
Iveco	39,856	18.6	35,703	17.9
MAN	25,936	12.1	26,314	13.1
DAF-Renault	21,787	10.2	17,339	8.7
DAF	15,500	7.2	16,715	7.8
Volvo	17,005	8.2	15,463	7.7
Scania	13,146	6.1	11,970	6.0
Others	12,543	5.9	12,849	6.3
Total	214,291	100.0	200,293	100.0

Source: Industry estimates

in particular for France and Italy, which are not expected to be able to compensate for the accelerating slide in German demand.

Truck sales in France (six tonnes and above) are forecast by DRI to rise by only 2.4 per cent next year after three years of sharp decline, with sales falling in Italy by 10.4 per cent and in Germany by 23.2 per cent.

"With a severe contraction in

the German market, and weaker demand prospects in other European countries, truck registrations are forecast to decline by up to a further 8 per cent in 1993, before some measure of returning confidence and improved investment climate provide a firmer foundation for growth in truck demand."

The DRI forecast does see a resumption of modest growth in European truck demand

### Western Europe truck sales (over 3.5 tonnes GVW)

	1991	1992	% change
Austria	9,885	7,485	-10.4
Belgium	10,564	11,337	+7.3
Denmark	3,426	3,536	+3.1
Ireland	1,978	3,075	+55.8
Finland	2,364	4,184	+77.0
France	44,886	60,470	+34.7
Germany*	126,611	61,149	-51.0
Italy	23,218	35,196	+51.6
Netherlands	13,758	14,677	+6.7
Norway	3,550	3,555	+0.1
Spain	24,462	31,191	+27.5
Sweden	4,376	6,733	+54.1
Switzerland	3,620	4,661	+28.8
UK	32,184	46,546	+44.7
Europe excluding Germany	397,977	306,237	-23.0
excl. Germany	180,466	225,148	+24.8

\* Eastern and western for 1991  
Source: Automotive Industry Data

from 1994, but total sales are only forecast to reach 261,000 by 1997, still well below the peak years at the end of the 1980s.

In the UK the first signs of a modest recovery are appearing but only after three years of deep recession have taken a heavy toll on the industry.

In July truck sales (above 3.5 tonnes gross vehicle weight) showed the first monthly year-on-year increase in 34 months finally ending a period in which sales had plunged by 80 per cent in three years.

The breakthrough achieved in July has been sustained for four months with UK truck sales showing year-on-year increases for four consecutive months from July to October. The decline earlier in the year, however, means that for the first 10 months UK truck sales were still 4.3 per cent lower than in the corresponding period a year earlier.

Since 1989, overall UK commercial vehicle sales have suffered the steepest and deepest fall into recession of the post-Second World War period. Truck sales have fallen to a level not seen since the early 1950s, and the recovery is therefore coming from a very low base.

The recent improvement should be sustained in 1993 and 1994 according to the latest DRI forecast, which suggests that sales of trucks (6 tonnes and above) could increase by 13 per cent in 1993 to 32,700 and by 14 per cent to 37,400 in 1994.

It is expected that pressures in the UK to replace older trucks, which have been retained during the recession, will become more intense.

"Many truck operators will be experiencing rising costs as they hang on to vehicles beyond the point at which they

would normally renew them if trading conditions were better," says the DRI report.

An early sign of improving prospects is coming from the truck rental sector in the UK, which operators often turn to as a means of adding capacity in the short-term, when they are uncertain about embarking on a new truck purchase to meet higher demand.

Despite falling sales in western Europe, truck makers in Europe managed to increase production modestly by 2.2 per cent last year to 324,000, helped by exports to overseas markets with important orders coming from north Africa and the Middle East. Output fell in 1990 by 13.4 per cent to 317,000.

The latest DRI study suggests that the fall in truck production (6 tonnes and above) will have been resumed this year with a drop of around 7.5 per cent to 300,000, however. Output is forecast to decline further in 1993 by 5.2 per cent to 285,000. Production reached a peak of 366,000 in 1989.

In previous recessions in Europe, which had been triggered by steep increases in oil prices, the western European truck industry had been able to cushion demand losses at home through sharply higher exports to the oil-producing countries.

"This time the nature of the recession is different and is accompanied by a weak global outlook with real commodity prices remaining low, and little prospect for exports to make up domestic shortfalls," says DRI.

With the main impulses for recovery coming from domestic demand in Europe, DRI forecasts the start of a modest recovery in output in 1994 with an increase of 3.1 per cent to 298,000.

Profile: DAF

## In search of an alliance

IN THE endless war of attrition in the European truck industry DAF, the Dutch commercial vehicle maker, appears set to be the latest victim of the wave of restructuring that has swept through the sector.

Three months ago it admitted that it had been forced to enter discussions on "a strategic alliance". While still refusing publicly to identify the hoped-for saviour, it appears that DAF is seeking shelter under the giant shadow of Mercedes-Benz, the world's leading truck maker and the automotive subsidiary of Daimler-Benz, Germany's biggest industrial corporation.

DAF, which is now in its third year of heavy losses, says that it is seeking an alliance, where the new partner would provide fresh equity to bolster its battered balance sheet, as well as collaboration to allow it to share products, new product development costs and plant capacities.

Its need for an alliance is becoming increasingly urgent as truck markets weaken across Europe, and as recovery from prolonged recession in the UK, still DAF's biggest market, remains elusive.

In its latest setback DAF announced last month that it would have to defer payment of a dividend in 1992 on an issue of preference shares made only a year ago to raise £125m to strengthen its creaking finances.

The dividend postponement - along with the announcement of more production cutbacks caused the DAF ordinary share price to plunge to an all-time low of £1.80 in trading in the last month from a high for the year of £1.28.90. DAF was floated on the Amsterdam and London stock exchanges in 1989 at a price of £1.47.00 a share and peaked at £1.58.30 shortly afterwards.

The reluctance of some DAF shareholders to subscribe to last year's share issue has radically changed its shareholder structure.

The British Aerospace stake (a product of DAF's takeover in 1987 of the Leyland truck operations and BAE's subse-

quent takeover of Rover, formerly British Leyland) has fallen from 16 per cent to only 10.9 per cent.

At the same time three leading Dutch financial institutions have emerged as big shareholders. ABN-AMRO Bank with 8.2 per cent, and the Dutch insurance groups ING and Aegon with 10.6 and 6.4 per cent respectively.

While DAF seeks the support of Mercedes-Benz, it is also in advanced talks for additional funding of £120m in credits backed by the Dutch and Belgian states. Separately it has explored potential collaborative ventures in components with Hino, the Japanese truck maker.

DAF's fortunes have changed with alarming speed reflecting the dramatic volatility of the European truck market. It fell into net losses of £123m in 1990 and £139m in 1991 - and failed to pay dividends - after achieving a record net profit of £112m in 1989.

DAF has turned from hunter to prey in the European truck industry.

In the late 1980s it moved into high gear in a drive to acquire, itself, the critical size that might have promoted it into the top league of European truck makers.

In 1987 it took over the then British Leyland truck and van operations in a move that transformed it from being essentially a heavy truck and bus maker, into a commercial vehicle producer with a full product range from vans to light, medium and heavy trucks and buses.

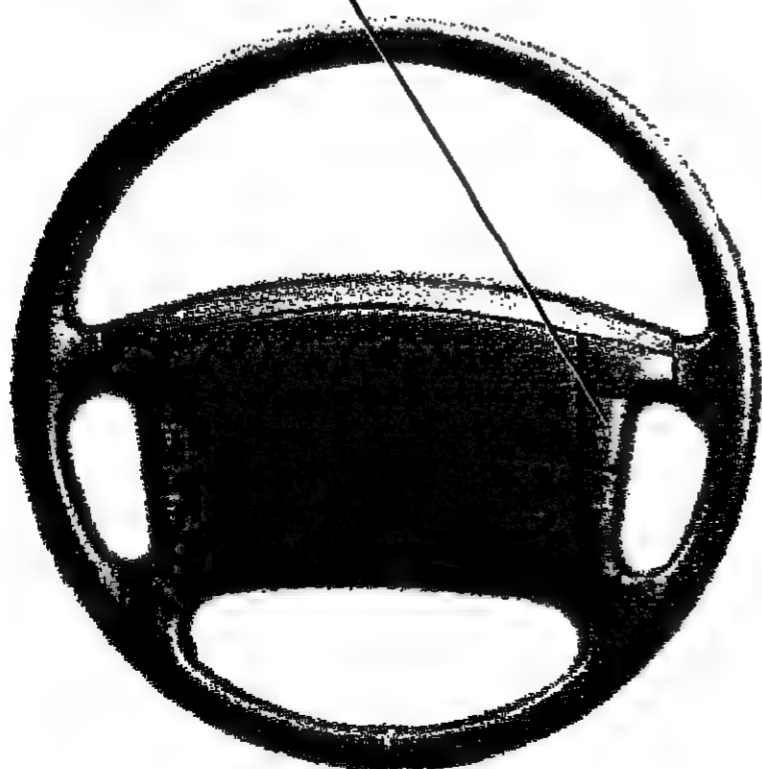
Enjoyed by the record sales and profits of 1989 it then tried unsuccessfully to take over Enasa in Spain and Steyr in Austria, but each time it was thwarted, as bigger rivals stepped in.

Among today's surviving European truck makers, DAF is exposed by having the breadth of product range of the biggest players without their production and sales volumes.

It has entered a collaboration with Renault to develop a new van range for the mid-1990s. Continued on next page

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## COMMERCIAL VEHICLES 3

## Profile: SCANIA

## New plant opened in France

Continued from previous page but until it started its present negotiations with Mercedes-Benz, it had failed to find a partner to share the much more onerous product development burden on the truck side of its business.

At the same time it has lacked the depth of financial resources to allow it to emerge unscathed from the horrors that have beset its sales in the UK, which became its single biggest market after the merger with Leyland.

Daf has tried hard to reduce its dependence on the UK by building its dealer network and sales in particular in Germany and in France. Its endeavours are beginning to bear fruit in those markets, but in 1991 the UK still accounted for 39.4 per cent of group turnover.

It was little consolation that Daf became the truck market leader in the UK last year, narrowly overhauling its bitter local rival Iveco Ford, when at the same time overall UK truck sales were suffering their steepest slide into recession since the Second World War with demand at its lowest level since the early 1950s. UK truck sales have fallen by 60 per cent in the past three years.

According to figures from DRI, the London-based automotive analysts, Daf's share of the western European heavy truck market (above 15 tonnes) fell to only 7.9 per cent last year from 10 per cent in 1990 leaving it last among the seven leading European truck makers.

It has managed, however, to cut its net loss in the first half of 1992 to £197.4m from £173.1m a year ago, with its operating loss reduced to £127.4m from £116.5m a year earlier. It has launched this year a new heavy truck range, the Daf 75/85, developed at a cost of £155m.

Between the end of 1991 and the end of 1992 restructuring measures will take costs of £150m a year out of the business. With manufacturing operations in the Netherlands, Belgium and the UK, the company will have cut its workforce to fewer than 15,000 by the end of 1993 from 16,782 in 1989.

Daf's earlier forecast - conditional on various favourable developments - of a break-even for 1992 after a loss in the first half, had to be changed, in late August to a break-even only in the second half of 1992.

Kevin Done

IN THE MIDST of declining heavy truck markets across Europe, Scania, the specialist Swedish heavy truck maker, has added to its capacity with the opening of a new truck assembly plant at Angers in western France.

Scania has long enjoyed the leading position as the most profitable truck maker in Europe, but its financial performance is coming under pressure as it adds capacity at a time of shrinking demand.

The Swedish truck and bus maker is a subsidiary of Saab-Scania, the automotive and aerospace group, which in turn forms the main wholly-owned operating unit of Investor, the Swedish investment group controlled by the Wallenberg family.

When European truck sales were booming in the late 1980s Scania was unable to keep up with demand and was forced to sacrifice market share. It embarked on the Angers project at the peak of the market, however, and it now faces the burden of carrying the excess capacity through the duration of the present recession.

Last year the group succeeded in compensating for the lower demand in western Europe with increased sales in other markets, in particular in the Middle East and in the Far East, but this has proved more difficult in 1992.

In the first half of this year sales

of Scania trucks and buses fell by 10 per cent to 14,961 from 16,643 in the corresponding period a year earlier. Turnover has declined by 7 per cent to SKr8.55bn. It captured a 10.4 per cent share of the European heavy truck market (above 15 tonnes) last year, a fall from 11.3 per cent a year earlier. Scania's truck production operations are located in Europe - in Sweden, in the Netherlands and in France - and in South America, where it began to build trucks, buses and engines in Brazil in the mid-1980s and in Argentina in 1976.

It has a leading position among European truck makers in the Middle East and Far East, where its trucks are assembled under licence in South Korea by Asia Motors, a subsidiary of the Kia group.

The main blank on the Scania map is North America, where the Swedish truck maker has failed to follow its European rivals Mercedes-Benz, Volvo and Renault into the US market. Unlike these three groups, which have all taken over established US truck producers - and

have all suffered heavy losses - Scania tried to go it alone, but with little success.

Since 1985 Scania has exported to the US a limited volume of trucks for sale in the north-eastern states of the US, but it was forced to announce in the summer that it was discontinuing production for the US from the end of this year. It blamed its withdrawal on the lack of profit-

2,942, Sweden, 2,856 and Italy, 2,506.

In the space of two years the UK, Sweden and Italy had dropped out of the top five to be replaced in 1991 by Germany - with 4,011 vehicles Scania's biggest market - Iran and the Netherlands.

Iran, where Scania sold no trucks in 1990, emerged as its fourth largest market worldwide last year with the sale of 2,300 vehicles. Scania's sales

year to 1,798 from 537 a year earlier.

This year the Iran and Korea markets have declined, and Scania truck sales are also falling in line with the markets in Germany and in Brazil.

Scania has been unable to make up for these falls, although it has made gains in Argentina, and in several smaller markets such as Morocco, Tunisia and Syria. It has returned to Morocco this year after an absence of 30 years with the assembly of trucks and buses by Soriac, a privately-owned, local group. It is aiming at a sales volume in Morocco of around 250 vehicles a year.

The access to overseas markets has not been sufficient during the recession in Europe to maintain production levels at Scania's Swedish and Dutch plants, and the group has announced measures to cut its workforce in the two countries by 875 by early next year. It had a workforce of 22,000 at the beginning of 1992 with 6,500 at its main Södertälje plant in Sweden, and 9,000 outside Sweden.

To bring output into line with falling sales production is being stopped for a total of 9 days from September to the end of the year at the Dutch plants, while four production days will be lost at the Swedish plants around the end of the year.

The decline in Europe means that production at the new Angers plant, where Scania has initially invested close to FFr400m (£49m) will develop much more slowly than originally planned. The workforce presently totals around 200 including 120 hourly-paid workers. With output running at 5 trucks a day the Angers plant is scheduled to produce 600 trucks by the end of this year. At full capacity of 30 trucks a day the workforce is expected to rise to 400-500.

Scania has developed plans to establish an engine plant at Angers as well as to further boost truck production capacity at the site, but investment in further expansion will require first a significant recovery in the European heavy truck market.

The group is aiming to have a production capacity for 50,000 vehicles a year by the mid-1990s. Last year total deliveries of trucks and buses increased by 5 per cent to 33,100, including 3,980 buses, the second best year in the group's history.

Kevin Done

## Profile: MAN NUTZFAHRZEUGE

## The party appears to be over

cast to fall in the current year. MAN has also warned that further short-term working could be imposed in coming months, if orders remain at a low level. Turmoil in the currency markets has greatly increased uncertainty in European markets, it says.

While the outlook for the coming year is deteriorating, MAN at least has the cushion of a record financial performance in the past two years.

In the 12 months to the end of June the company, a subsidiary of MAN, the German engineering group, increased its pre-tax profits by 29.7 per cent to DM506m, while turnover rose by 6.9 per cent to a record DM7.9bn. Sales outside Germany were unchanged at DM3.2bn, but domestic turnover jumped by 13 per cent to DM4.7bn.

MAN raised its production of trucks and buses by 8.4 per cent to a record 41,590 with the company's plants in Germany and in Austria working at full capacity. In contrast to the wholesale job losses elsewhere in the industry it increased its workforce by more than 1,000 to 28,900 at the end of June.

MAN truck and bus sales world-

wide rose by 7 per cent to 40,815 in 1991/92 from 38,146, helped by strong demand in Germany and in Austria. The increase was achieved in spite of a fall in the total western European market for trucks (from 6 tonnes gross vehicle weight) to 277,000 in the calendar year 1991 from 287,000 a year earlier.

The group's strong presence in the

tonnes) has surged from 8.8 per cent in 1990 to 13.8 per cent in 1991. DRI forecasts that MAN's share will have risen to a peak of 13.4 per cent this year before weakening in 1993, as the German market contracts.

MAN has been able to boost production to cope with the surge in demand in Germany thanks to its 1990 acquisition of the Steyr truck

past five years from DM170m in 1987/88 to DM395m in 1991/92, with the focus on creating a flexible production network between the five German and two Austrian plants.

After its record performance of the past two years declining new orders in recent months indicate that the coming two years will be much more difficult for MAN. The high level of orders it is still taking for buses, is insufficient to compensate for the rapid drop in new truck business.

Falling new orders from the domestic German market combined with stagnant or declining demand from export markets has led to a 20.3 per cent fall in the value of new orders booked by MAN in the 12 months to the end of June to DM7.2bn. The value of new domestic orders fell by 28.1 per cent to DM4.1bn, while foreign orders declined by 6.5 per cent to DM3.1bn.

The value of the order book had fallen by 22.7 per cent to DM3.49bn at the end of June from DM4.5bn a year earlier. In the first quarter of the 1992/93 financial year (July to September) the value of new orders had fallen again by 27.8 per cent to

its record profits have been in stark contrast to the losses reported elsewhere in the industry by the likes of DAF and Volvo

German market, where it accounts for more than a fifth of all truck sales (over 3.5 tonnes gross vehicle weight), has allowed it to achieve a record share of the total western European market where Germany is the dominant force.

According to DRI, the UK-based automotive analysts, MAN has moved from last place among the seven leading European heavy truck makers in 1990 to third place last year behind only Mercedes-Benz and Iveco. Its share of the western European heavy truck market (over 15

operations in Austria. MAN has moved the assembly of its M90 medium-weight truck range to Steyr, which produced nearly 4,800 MAN trucks in the 1991/92 financial year. Steyr also holds a market share of around 23 per cent in its domestic market in Austria.

The German group is investing DM430m in the Steyr operations, of which around DM29m was spent last year in part for the building of a new truck assembly line.

MAN Nutzfahrzeuge group capital expenditure has risen rapidly in the

DM1.3bn from DM1.8bn in the same period a year ago.

The group claims it has been unable to move as quickly as it had hoped to build up a dealer and service network in eastern Germany, often because of problems in establishing land ownership and gaining the necessary approvals. It now has four wholly-owned service centres in principal cities.

In Hungary, MAN has recently signed a letter of intent with Raba, the Hungarian engineering company, and Mogirt, the trading company, to co-operate in assembling trucks. The aim of the deal is for MAN to deliver diesel engines and truck cabs to Raba, chiefly for all-wheel drive vehicles exclusively for the Hungarian market.

MAN is also expanding control of its importer/distributor organisation in western Europe and earlier this year it took over the UK MAN truck importing business for £20m from Lomro, the London-based international trading group.

The German truck maker accounted for 4.9 per cent of the UK truck market (above 3.5 tonnes) last year, where it is relatively weak compared with its presence elsewhere in Europe. It was only in eighth place in the UK, where it is still overshadowed by groups such as DAF, Iveco and Mercedes-Benz.

Kevin Done

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## COMMERCIAL VEHICLES 4

## Profile: ERF

## Eyes on Europe

BY NORMAL motor industry criteria, ERF should have been one of the early casualties of what is the deepest UK truck market slump since the Second World War.

It is small. It achieved an output of 4,319 trucks in its peak year of 1989 and expects to make and sell only around 2,000 this year, during what now appears to be the trough of the recession. It thus enjoys few of the economies of scale of far larger rivals such as Daimler-Benz and Iveco.

Its sole manufacturing plant is at Sandbach, Cheshire, in the far north-west corner of England. It has been heavily dependent on the UK for its sales - and the UK has been by far the most badly hit of all European truck markets.

ERF is also the UK's last publicly-quoted independent truck company, still family-controlled but nevertheless having recession-rattled banks and shareholders to satisfy and no group parent to draw on for support.

Ten years ago, when the last severe truck sales downturn occurred, it did indeed look as if ERF would not survive. The company was then what chairman Peter Foden describes as a "fruit salad" truck maker, employing large numbers of people to produce tailor-made vehicles fitted with almost any type of engine, transmission or axle dictated by the whim of customers.

It was an inefficient way of producing trucks and for which ERF could command little premium. It was also unsustainable. ERF's debts rose, output plummeted, overheads swung.

The action taken by Mr Foden then, underpins its survival now.

The model range was streamlined, and standardised around Cummins engines, Eaton gearboxes and Rockwell

axles. It retained its own cab design and manufacturing - having pioneered the non-rusting plastic composite, rather than metal cab - and with the recovery of the mid-80s reaped the benefits.

By the time it became evident, in mid-1990, that the present UK sales slump was deadly serious ERF had achieved four years of sustained profitability culminating with a record pre-tax profit of £7.65m in 1989.

Since then, it has been sharply downhill all the way for the entire industry. Even so, after 18 months of losses, and with the market still sliding downwards, ERF managed a small profit in the first half of its financial year to September 1991. Four months ago, Mr Foden was able to report that the full-year 1990/91 loss of £4.47m had been cut to £563,000 in 1991/92.

That is a function of a work force almost halved once more to around 750, production pared to nine trucks a day on only four days a week, with ERF no longer building for stock.

Because ERF buys in key driveline components, lowering output is primarily a question of turning off the suppliers' taps - done quickly and relatively easily. There is little scope left for reducing overheads further.

With all truck makers still bleeding, such considerations would still be almost irrelevant if ERF were highly geared and running out of cash resources. But it is not. Gearing at mid-June was 17 per cent, up from 6 per

cent the previous year, and is probably still rising.

But this largely reflects increased on-balance sheet leased assets to bring ERF's 58m new product range to fruition - an ambitious project, involving another all-new cab, which will see the renewal of the range over the two years following the 1993 launch.

To compensate for the UK downturn, ERF has been putting extra effort into its traditional overseas markets - largest of which is South Africa - and which in the past year or so have been accounting for about 30 per cent of unit sales, although trucks and bus chassis are mainly despatched in kit form.

This year, however, ERF has decided to take the plunge into Europe, in what Mr Foden describes as "one of the most important steps ERF has taken for many years".

Two wholly-owned distribution subsidiaries have been set up, ERF France and ERF España, with a view to following in Portugal - to act as liaison with fledgling dealer networks.

The first truck destined for sale in continental Europe was shipped in mid-November. Final contracts with an initial two dealerships in France and four in Spain were being signed at around the same time.

According to Rod England, ERF's sales and marketing director, eight French dealerships, covering the main commercial regions from Paris to Marseilles, should be in place by the end of the

year, with five in eastern and central Spain. All are independently owned, most with other commercial vehicle franchises. Once sales have become established, ERF plans then to turn its attention to Portugal, followed by the Benelux countries.

Mr England says he believes ERF can capture around 2 per cent of Continental Europe's market for trucks of 16 tonnes and over - equivalent to around 1,500 units annually - within the next two to three years.

In theory at least, ERF's timing is fortuitous - it is entering the Continental market helped by a "windfall" devaluation of sterling after its departure from the ERM, although its fall against the franc and peseta is much less than against the D-Mark.

"But it's not helped us as much as we would like," observes Mr England, "because markets have been turning down in Europe. What it does provide is the flexibility to counter heavy discounting by the big guys in Europe."

To the obvious question of why should any Continental truck operator want to buy from a small, in European terms, relatively unknown UK producer, Mr England reports that "there are always people looking for something different."

"Within any country there are people dissatisfied with the reduction in choice that has gone on as the industry has rationalised, such as Volvo getting together with Renault. So we're saying to people there is a choice - that we're a maker of high quality products that does things just a little differently, with a low cost of ownership because parts are cheap and the vehicles last a long time."

John Griffiths

## Profile: MERCEDES-BENZ

## German success

AS MIGHT be expected, Germany's reunification has had a profound impact upon Mercedes-Benz, the luxury car and world's largest truck maker. Nowhere within the group's industrial activities have the effects been more keenly felt than in the commercial vehicles sector itself.

Against the backdrop of a 5 per cent drop in total world commercial vehicle output last year, Mercedes increased its own production by 14 per cent to a record 296,000 units. Its worldwide unit sales rose by 12 per cent.

The value of its commercial vehicles sales also jumped by 14 per cent, to DM27.6bn, outpacing the 31 per cent increase in its car sales.

However, with some other important world markets declining, without the German surge it would have been a different story.

At 122,000 units, Mercedes' German sales of commercial vehicles were 44 per cent higher last year than in 1990. Within the total, van sales rose by 43 per cent, those of the trucks carrying the materials for eastern Germany's reconstruction by 49 per cent.

The increases were total a notable contributor to last year's 13 per cent rise in Mercedes' total turnover to DM67.1bn and the 1990-matching DM1.55bn net income Werner Niefer was able to report to shareholders in his final year as president and chief executive.

He is to hand over to Mr Helmut Werner, joint chief executive, at the end of the year.

If Germany underpinned Mercedes' performance last year, developments elsewhere in the world reinforced the value of its sustained policy of globalisation. As most other western European markets turned down, Mercedes' commercial vehicles sales outside Germany also slipped, again by 14 per cent - but

still by not enough to prevent its share of the over-6m tonnes truck market increasing from 26 per cent to more than 31 per cent.

There was gloom also in the North American market, which dropped by 10 per cent although Mercedes' US subsidiary, Freightliner, was able almost to maintain its own sales volume, at 22,600 compared with 23,000 in 1990.

No-one expected the German surge to last indefinitely. Nevertheless, its commercial vehicles market rose by a further 9 per cent in the first quarter and has continued strong, to the extent that Mr Niefer now appears to have been pessimistic in suggesting that total commercial vehicle sales this year would fall back from 1991 levels. Market analysts, DRI/McGraw Hill, for example, predict that by the end of this year van sales will have risen by another 50 per cent.

In contrast, Mr Niefer's expressed hopes of a recovery in other European economies and markets have been only partially fulfilled. Even so, total sales and output are expected to be maintained at around the levels of a year ago.

In Europe, in particular, and in spite of planned research and development spending of more than DM5bn over the next few years, Mercedes no longer believes that putting competitive products into the marketplace is enough.

"More and more, the market is seeking combined product/service packages for specific transport requirements," according to Mr Niefer - with actual ownership of commercial vehicles becoming less relevant.

With this in mind, Mercedes has launched in Germany, the UK and several other Continental countries a vehicle leasing venture, Charterway, with contracts based around an agreed transport capacity rather than specific vehicles.

With the single EC market in mind, the company has also developed related EC service arrangements under which truck operators can obtain individually agreed, fixed-price service packages at any of Mercedes' 2,400 commercial vehicle service outlets in Europe through a cashless payment system.

These actions have been taken in the context of Mercedes' conviction that growth in European road transport will continue to be extensive for the foreseeable future. Indeed, it is forecasting 40 per cent growth in the volume of transport in Europe over the next decade, even though it already accounts for more than 60 per cent of goods transport in the region.

In that belief, and working within collaborative EC research programmes

such as Promethus - aimed at maximising traffic flows while increasing road safety - Mercedes' research engineers are working on a number of programmes from collision-avoidance radar through to comprehensive route guidance and congestion-avoidance systems.

"The requirement now is rather for integrated action on the part of all concerned - the manufacturers of the different forms of transport, the logistics industry and also the relevant politicians," according to Mr Niefer.

Despite the hitherto buoyant state of the German market, Mercedes - like the country's other major leading vehicle makers - remains increasingly concerned at Germany's continually rising production costs and the strength of the D-Mark.

Partly for that reason, and in spite of German plants accounting for more than 188,000 of Mercedes' commercial vehicle output last year - its top management has been placing increasing stress on future growth coming from increased sales and production from what is now a total of more than 50 production and assembly plants worldwide, employing when output of nearly 600,000 cars annually is included, a total of more than 237,000 people.

Nevertheless, Mercedes is continuing to invest in the expanded Germany: since February last year light trucks have been assembled at a plant south of Berlin in Ludwigfelde, and since September, T2 vans have also been assembled there. Mercedes has, however, been forced to postpone indefinitely a new 40,000-a-year truck factory in Brandenburg.

The commercial vehicle production range itself now totals 300 truck models in more than 2,700 different versions from vans to 46-tonne trucks.

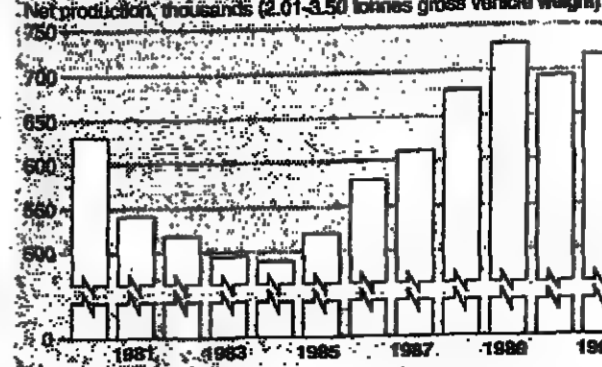
John Griffiths

## Profile: IVECO

## Declining fortunes

## Light commercial vehicles - Western Europe

Net production, thousands (2.01-3.50 tonnes gross vehicle weight)



also subscribed the total issue of preference stock made by Iveco Ford Truck and acquired the UK company Seddon Atkinson with ERF.

In Italy Iveco has grown by the acquisition of coach and bus makers Orlandi (1977) and Sica (1988), the construction truck manufacturer Astra (1988) and the fire-fighting vehicle maker Baribbi (1988).

An important Magirus activity is fire-fighting vehicles, and in 1987 this had been boosted by the acquisition of Barchet, another west German company.

While forming part of a full model range, fire-fighting, other special vehicles and coaches are not, however, the core of Iveco's business. This is trucks, where over the past two years it has tried to update its range. Indeed, the third factor which senior management attribute last year's loss are the costs of introducing new models.

Iveco's investment in the EuroCargo range of light 6-to-10 tonne vehicles was rewarded by the Truck of the Year Award last year. The company has focused on technological innovation to reduce running costs, increase reliability and improve driver comfort and safety. Iveco's EuroCargo range offers users a wide choice, with six engines, three cab types, two wheelbases, four solutions for suspension and three types of rear axle.

Higher up the scale, Iveco has also been updating its models. Earlier this year the company launched the Euro Tech family of heavy-duty trucks. To satisfy the wide range of applications that includes municipal vehicles, and town and suburban deliveries as well as long-distance transport, Iveco's EuroTech offers many combinations of engine, chassis and cab. And at the other end, Iveco extended its Daily/Turbo Daily range of light commercial vehicles by starting production of new models.

The Daily/Turbo Daily range was updated in 1989 and the range for off-road applications

David Lane

## Anthony Robinson on the eastern European industry

## West closes the gap

THE RECENT decision by Mercedes-Benz to shelve indefinitely plans for a DM1bn truck plant at Ahrendorf in former east Germany underlined both the high cost of making trucks in German plants and a far more cautious assessment of future growth in the European truck market.

But it also sent shivers of apprehension wider afield, and especially in Czechoslovakia where the German truck maker's plans to take a significant stake in two of Czechoslovakia's three big truck producers, Avia and Liaz, have still not been finalised.

This is partly a reflection of the general delay in closing deals following the June elections and pre-occupation with the forthcoming divorce between the Czech lands and Slovakia. But it also reflects government reluctance to grant the tax concessions and set up the tariff barriers sought by Mercedes to protect its investment. There has been no hint that a deal will not eventually be signed, but the prospect of lower than expected sales in both eastern and

western Europe has certainly reduced the urgency.

Mercedes announced its intention to take a 31 per cent stake in Avia, Czechoslovakia's principal manufacturer of small trucks, followed by a 20 per cent stake in Liaz, the main producer of heavy, on-road trucks in January. The statement followed an 18-month competition with Renault Vehicules Industriels (RVI) for Avia, and competition with Iveco of Italy which was interested in taking a stake in Liaz.

Iveco subsequently turned to Tatra, Czechoslovakia's famous producer of heavy off-road vehicles. But a planned Iveco-Tatra link has been put on hold. The original plan was to invest an initial \$20m in a 51 per cent joint venture.

Iveco's interest in Tatra is part of a long-term strategy to develop its presence in the heavy, off-road truck niche which the Italian company sees as an area with big growth potential.

Demand for heavy duty vehicles suited to harsh terrains and bitter temperatures

is expected to rise dramatically as the tempo of oil and gas exploration rises in the former Soviet Union. Robust vehicles such as these will also be needed once long neglected infrastructure, mining and other resource projects get under way.

The timing of such a recovery remains obscure, but it could be sooner rather than later as the privatised Russian economy, and other resource-rich republics like Kazakhstan, build up a growth momentum and open up to foreign investment.

Tatra already has an enviable reputation throughout the former Soviet Union and recently sold more than 1,000 vehicles to Saudi Arabia during the Gulf war. But Iveco also sought a commercial, production and engineering agreement with Uralmash, builders of the tough Ural-5323 and other off-road trucks.

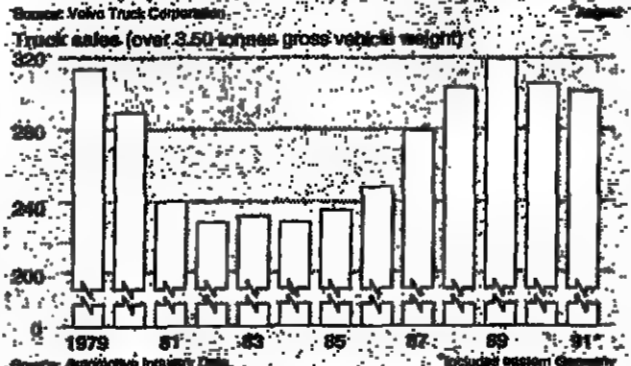
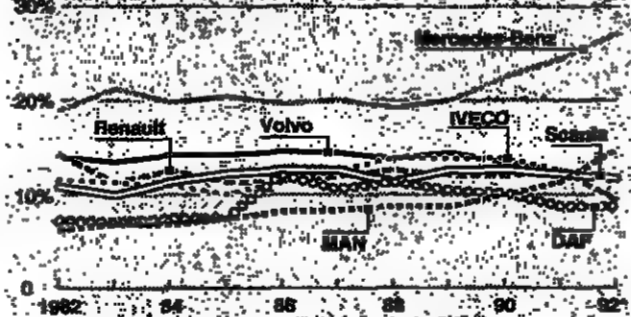
The deal with Uralmash, based on President Boris Yeltsin's former power base of Yekaterinburg, (formerly Sverdlovsk) should give Iveco access to the Uralmash plant at Miass, near Chelyabinsk. This means a production base close to the Ural mining and industrial areas as well as the oil, gas and mineral-producing areas of Siberia, precisely the main growth markets for off-road trucks. Under the agreement Iveco proposes to assemble a specially-adapted "artic" version of its Teco-330-30 at the Miass plant and help to develop future Uralmash vehicles.

Meanwhile, Renault, frustrated in Czechoslovakia, shifted its focus to Poland, where it is exploring the prospects for assembling and producing trucks and delivery vans at the Star plant in Starachowice, south of Warsaw.

Star, which at its peak turned out 14,000, 11-tonne

## Western European heavy truck market

Market share (in thousands and above)



trucks a year, was classic communist-style vertically integrated enterprise in a typical one-company town. It had its own steel works and foundry and dozens of inter-connected component and motor plants feeding into the main factory.

Its market virtually disappeared overnight as state enterprises and its military customers ran out of money. Private entrepreneurs, meanwhile, opted for lighter and more fuel-efficient imports.

Renault, too, is seeking tariff protection and other guarantees before converting the plant to produce the vans and light vehicles now in demand.

The question of tariff protection is becoming the deciding factor in the approach of smaller truck companies. Scania, for example, originally planned to sell trucks into the eastern European market from its Swedish base. Instead, in October, it announced a joint venture project with Kapena

of Poland to assemble R113 and R143 models near Krapak, close to the Baltic coast.

But not only truck makers have been seeking to expand their markets. Eaton Corporation of the US is prominent among western component manufacturers seeking future markets in Russia and the former Soviet Union.

Some, like Cummins engines, the world's largest independent diesel engine manufacturer, have already taken the plunge. Last year Cummins signed a long-term joint venture agreement, Kamaz Diesel, to produce engines at the Kazan plant.

Through these, and a host of other joint ventures, licensing agreements and other ways, western truck makers and suppliers are starting to change the shape of the industry in the east, and busy filling what was once the biggest gap in the emerging global market place.

## Phillip Hastings discusses EC deregulation plans

## Obstacles to progress

AMBITIOUS plans to totally deregulate European Community road haulage operations have had a bumpy ride over the past couple of years.

The establishment of EC cabotage will not be achieved in time for the formal creation of the EC Single Market at the end of this year, there are signs that the remaining obstacles to further progress are slowly being dismantled.

"We do not yet have cabotage in the EC and they still have not solved the problems of vehicle taxation. Nevertheless, when you consider what has been done in the last few years after years and years of stagnation, a great deal of progress has been made," says Mr Reg Dawson, a leading EC transport consultant.

Still far from clear is the effect that the likely eventual liberalisation of EC road haulage activities will have on future demand for commercial vehicles.

On the one hand, deregulation is expected to result in considerable rationalisation of the European road haulage industry, suggesting fewer customers for commercial vehicle manufacturers. Conversely, though, survivors of the anticipated shake-out will need more vehicles to support their expanding operations.

Crucial to the full deregulation of EC road haulage activities is the issue of cabotage - the right of hauliers from one EC country to freely operate inside another state.

Vehicles engaged in cabotage work are subject to many of the regulations of the state where the work is carried out. But that situation is itself causing complications. For example, while the host country's laws apply to issues such as pricing, contracts, vehicle weights and dimensions, work rest hours, other matters

including social security, vehicle registration and taxation come under the jurisdiction of the operator's home country.

The establishment of EC cabotage made little progress until mid-1990 when the European Council of Ministers finally agreed to its introduction in a very limited form. Basically, that system makes available a quota of cabotage authorisations - just under 17,000 for 1992 - distributed among the member states.

Supporters of full deregulation of the European road haulage industry had hoped that initial moves on cabotage would lead to its full introduction in 1993. But vested national interests have slowed down such development.

Some EC countries, notably Germany and France, fear their domestic haulage industries could be badly damaged by a sudden influx of competition from outside countries such as Spain and Greece where operating costs are lower.

For that reason, Germany in particular has insisted on linking the issue of cabotage with moves to harmonise hauliers' costs, for example through vehicle and fuel taxes, throughout the Community. Germany also wants to see the establishment of a common system for tolls and road-user charges for heavier commercial vehicles.

The German authorities appear to be winning the argument over the need to harmonise haulage industry costs within the EC. The European Commission has with the last couple of months put forward a proposal which, if accepted, could mean that hauliers have to pay a road tax for using the Community's motorways from January 1994. The Commission claims such

a tax, which would be based on the size of vehicle and the time spent on the road, would allow member states to recoup some of the costs of building and maintaining road infrastructure.

The most recent meeting of EC transport ministers in October made some further progress on harmonising road taxes. However, the Commission's published proposals do not suggest any minimum or maximum charges. Instead, individual member states would set their own tax levels.

The absence of a standard tax figure, it is feared, could lead to continuing disputes between countries such as Germany, which want to set higher charges, and poorer member states who fear that implementing such taxes would badly damage their industries.

Meanwhile, pressure is growing on EC ministers to reach agreement on the subject of cabotage. Specifically, time is running out on a controversial European Council ruling that if the ministers fail to agree a timetable for full cabotage by the end of this year, there must be complete cabotage freedom from 1993. Detailed proposals on the subject are expected to be ready for discussion at the next European Council meeting in early December.

Having had a deregulated road haulage industry for some 20 years, the UK is one of the countries most in favour of deregulating and harmonising operations throughout the EC. However, the UK remains out of step with the rest of the Community on the subject of vehicle weights. While other EC countries allow trucks of 40 or even 44 tonnes on their roads, the UK has a limit of 38 tonnes and a derogation to continue with that limit until 1999.

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Jeff not 150

Karen Zagor assesses the US industry after the worst year for truck sales since 1983

## Signs of the long-awaited recovery

AFTER several years of hoping in vain for a reversal of slumping sales, there are signs of the long-awaited recovery in the US heavy truck industry.

Demand for class eight vehicles was surprisingly strong through the first half of this year, with truck sales for Paccar, Navistar, General Motors and Ford at their highest levels in three years and overall new truck orders coming in at an annual rate of more than 120,000 units. This compares with a decline of 22.3 per cent in sales of class 8 vehicles for the first nine months of last year. Indeed, 1991 was the worst year for heavy truck sales since 1983,

with only 98,730 units sold.

One reason for the improvement, according to Runzheimer International, a company which tracks the transportation industry, is that fleet managers are trying to reduce maintenance costs by replacing trucks at shorter time and mileage intervals.

Heavy truck sales are expected to receive a further boost in the next few years from the Intermodal Surface Transportation Efficiency Act to modernise US highways, which is expected to stimulate the weak construction market.

The sector is also starting to benefit from the 1990 Clean Air Act, which calls for tighter

emissions standards by 1994. Fleets have started to replace older vehicles with more modern trucks which comply with the new standards.

While the Clean Air Act should stimulate sales even further next year, it is not expected to be a panacea for all the industry's problems. Indeed, the impact of the Clean Air Act may be less dramatic than initially expected because engine makers can now do in-cylinder modifications which are less expensive than replacing entire vehicles.

The US heavy truck industry continues to be plagued by over-capacity, with manufacturing capacity estimated at more than twice the rate of sales. This excess is the legacy of the 1960s when it was believed that retail sales in the US would never slip below the 100,000 level and projections called for annual sales ranging from 125,000 to 135,000 vehicles.

Competition among heavy truck makers also remains fierce, in a sector where six players control between 9 to 30 per cent of the market.

Navistar is still the biggest player in the North American market, with a combined market share of 29.3 per cent for heavy and medium trucks.

In spite of its commanding

market share, Navistar is struggling to survive. The company has not posted an annual profit since 1989, and it is expected to remain in the red this year, with a nine-month net loss of \$182m, or 81 cents a share, including special charges of \$8m.

Navistar's vertical integration, and the resulting high

The sector is starting to benefit from the 1990 Clean Air Act

fixed costs have contributed to the company's woes, but its main problem stems from steep medical benefits for retired former workers. The company, which left the farm equipment business years ago, is in the middle of a legal battle over the healthcare benefits it is still paying former International Harvester employees.

Both the company and the United Auto Workers' Union, which represents the former employees, have said they hope to reach an agreement by early December, but there are no guarantees of success and a protracted legal battle could drive Navistar into bankruptcy.

The picture is less bleak at

Mack Trucks, a wholly-owned subsidiary of France's Renault Vehicules Industriels (RVI), which accounts for about 11 per cent of the North American market. Mack has undergone an overhaul since Renault acquired full control of the company in October 1990 and Renault recently said Mack was seeing a revival in demand in North America.

Paccar, with about 21.4 per cent of the class eight market, remains one of the strongest players in the North American heavy truck market thanks partly to the quality and dependability of its heavy trucks. The company, which makes Peterbilt and Kenworth trucks, saw third quarter profits rise 7 per cent to \$18.2m, or 54 cents a share, on revenues which grew 19 per cent to \$683.6m and its full-year earnings are expected to exceed 1991's figures.

But it is the light truck segment that remains the bright spot of both the US truck and car industries. At a time when new car sales are expected to be static, fourth quarter production of pickup trucks, mini vans and sports utilities is expected to jump nearly 19 per cent to 1.05m.

The so-called "baby boom" generation can take credit for

the surge in light truck sales by choosing to use utility vehicles and vans as family cars instead of the traditional station wagon.

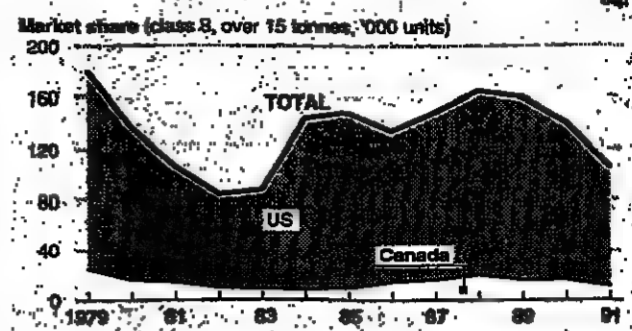
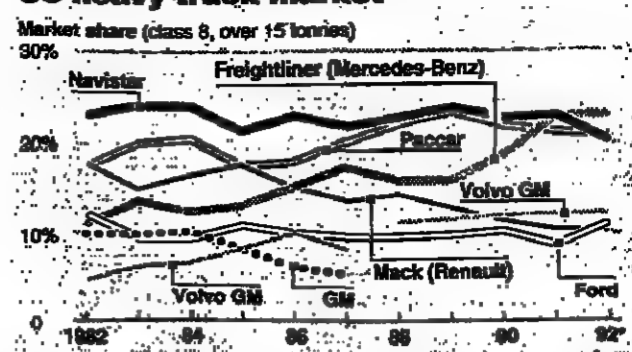
Ford has benefited from the popularity of its Explorer sport utility and Chrysler has gained from the strong sales of its minivans, which are officially classified as trucks although they are mainly used as cars.

The pickup truck segment now accounts for close to 48 per cent of the light truck market, with sales expected to reach 3.3m this year.

US manufacturers now face their biggest challenge in the full-size pickup sector. In contrast with the compact truck market, which was largely developed by Japanese manufacturers, the big three US vehicle makers have always controlled the full-size pickup sector. Ford and Chevrolet's full-size pickups are the best selling vehicles of any type in the US.

Toyota, which has been eyeing the full-size pickup market since the mid-1980s, is finally moving into the arena this year. In an attempt to forestall anti-Japanese sentiment, the new Toyota pickup is slightly shorter than the Ford models and has a V4 engine instead of the more powerful V-8 engine found in most full-size pickups. Toyota will have to contend with the more conservative nature of US pickup truck drivers, but in the long term it will probably put pressure on US producers in this extremely important sector.

### US heavy truck market



Navistar's newest 3200 heavy truck model

### Profile: NAVISTAR INTERNATIONAL

## One-time jewel in the crown shows up flaws

LEGENDARY financier J.P. Morgan would certainly blink if he saw the balance sheet of Navistar International, a slimmed-down version of the former International Harvester, once a jewel in Morgan's turn-of-the-century corporate empire. The company, having eluded bankruptcy in the mid-1980s, is once again on the financial brink.

Battling five-year cumulative losses, Navistar sold off the Harvester name and its prestigious line of agricultural machinery in 1985. The ambitious restructuring saved it from bankruptcy, and its surviving core businesses of heavy- and medium-weight truck and engine manufacturing were projected to carry it to solvency.

However, seven years after the overhaul, the company is still dogged by losses and is

and emissions controls, as well as in production efficiency. "Navistar has good products, and their engine technology is as good as anyone's," says Robert McCarthy, a securities analyst with Chicago-based Duff and Phelps. "In terms of the products they present to the marketplace, they are extremely competitive."

However, decisions during the 1986 restructuring are bleeding red ink on to Navistar's bottom line. To trade off its big International Harvester units, executives agreed to have Navistar retain responsibility for all of International's former workers' retirement and health benefits. As healthcare costs have escalated in the US, the company has been swamped with pension bills and related costs. The pension burdens increase operating costs by about \$150m a year - costs not shared by its competitors.

Securities analysts say that sum, plunged back into income, would equate to 50 cents a share each year.

In its pared-down condition, Navistar supports three retired workers for each of its active workers. A decade of downsizing has reduced the company's workforce to 13,000, from 100,000 in 1980.

The realities of that ratio have caused John Horne, Navistar's president, and James Cotting, the firm's chief financial officer, to seek to reduce the level of health care and other benefits it provides to former workers. By asking employees and retired workers to contribute some of their healthcare costs, they expect to achieve annual savings of about \$90m.

The alternative, they have said in court filings, is bankruptcy, and the loss of the company's remaining jobs as well as retired workers' pension benefits.

While declining to comment directly on the case, Mr Cotting noted that to remain competitive, a company must focus on productivity. "If you're not servicing your customers or supporting your people who do, you simply can't afford to be in business any more," he said.

When first proposed in July, the reduced benefits were strongly opposed by unions representing Navistar's workforce. However, by October the powerful United Auto Workers' Union had agreed to negotiate, with both sides aiming for a resolution by early December. The union has also agreed to open the terms of its master contract for existing employees.

Mr John McGinty, securities analyst for the investment firm First Boston, sees the talks as a potential landmark. If Navistar is successful in obtaining union concessions on healthcare and pension issues, the repercussions would reach far beyond its own workforce, and deeply influence contract negotiations for autoworkers in Detroit next year, he said.

Laurie Morse

The core of Navistar's financial difficulties do not rest with its day-to-day operations, which are in fine shape

locked in negotiations with the United Autoworkers' Union over benefits for retired employees that it contends could push it into bankruptcy. Chicago-based Navistar reported its eighth consecutive quarterly loss last month, an outflow of \$50m, or 13 cents per share, on sales of \$920m.

With a whopping 251m shares outstanding, those sales translate into little more than 36¢ for each share. Navistar's stock has not traded over \$5 since 1988, and is now about \$2 a share.

The core of Navistar's financial difficulties do not rest with its day-to-day operations, which analysts agree are in fine shape. The class eight heavy truck market, of which Navistar holds a 20 per cent market share, is pulling out of recession with gusto, and is projected to grow by about 20,000 units in 1993. Heavy truck assembly comprises about 40 per cent of Navistar's business.

The medium-truck market is still flat, with 1993 industry sales projected at about 95,000 units. Navistar commands about 30 per cent of that market, which represents about 40 per cent of its business. Included in the medium truck class is Navistar's school bus chassis business. Navistar produces two thirds of all the school bus chassis manufactured in North America. However, the sector has been dented by recalls and weakness in municipal budgets, and is expected to recover more slowly from the recession than other truck lines.

Sales of Navistar's truck engines have increased steadily, and have benefited from a recent Mexican expansion, and a \$100m a year commitment to production research and development.

The development programme has kept Navistar's truck engines in the forefront in terms of fuel consumption



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## COMMERCIAL VEHICLES 6

Alan Bunting looks ahead at the development of new products

## An exhausting programme of technology

ENVIRONMENTAL legislation has become the most powerful influence on truck technology and will remain so, through to the year 2000 and beyond. The challenge for manufacturers is one of complying with progressively-tougher exhaust emission and noise limits, while remaining competitive on vehicle cost, fuel consumption and performance.

Though environmentalists might argue otherwise, making trucks quieter and cleaner does little or nothing to enhance their appeal in the eyes of today's recession-battered transport operator, whose concerns are more than ever centred on costs and vehicle productivity.

If truck operators lived in a world where fuel consumption, vehicle price and payload (carrying capacity) were of no consequence, then cutting noxious emissions to the levels being demanded under so-called Euro 2 and 3 legislation in 1996 and 1999/2000 would be simple.

But new technology is needed to clean up the diesel engine without incurring those penalties. Oxides of nitrogen (NOx) and particulates are the two most critical noxious exhaust constituents subject to legal limits. At present, moves to reduce NOx lead to heavier fuel consumption and/or reduced engine power.

At the same time, formation of particulates (visible as black exhaust smoke) is increased. They can be readily removed from the exhaust using a filter, albeit a heavy, bulky and expensive unit, in which the deposits are periodically burned off harmlessly at high temperature.

But diesel technology is moving ahead at such a pace that many manufacturers expect by the end of the decade to be offering engines which need no aftertreatment (exhaust filters or catalytic converters) to meet even Euro 3 emissions legislation.

### Turn-of-the-century engines will match the performance of today's diesels

Europe's near monopolistic diesel fuel system supplier, has taken a 49 per cent stake in Detroit Diesel's research company.

Nevertheless, Bosch's own German-based research and development programmes continue, with emission law compliance central to them.

In the wake of the agreement with Mercedes, Robert Bosch,

And those turn-of-the-century engines will match the performance and fuel efficiency of today's diesels.

In the forefront of such development are the American company Cummins, which builds engines in the UK, and Scania of Sweden. They have joined forces to develop an all-new diesel fuel system called HPI (standing for high pressure injection). It will raise peak injection pressures, from today's typical 1300bar, to 1700 or even 2000bar (30,000psi). With HPI, injection will start later in the cycle and finish earlier, enabling both NOx and particulates to be reduced.

Using the established American principle of mechanically-actuated injectors, HPI will feature a new method of electronic injection control, designed to overcome the leakage and injector bursting problems which would otherwise result from such ultra-high fuel pressures.

Meanwhile, Mercedes-Benz is involved in a parallel fuel system research collaboration with another US engine maker, Detroit Diesel. Less radical technology will be applied than in HPI, further refinement of Detroit's present DDEC electronically-controlled injectors is the most likely path of development.

In the wake of the agreement with Mercedes, Robert Bosch,

...and Mercedes-Benz shapes up for a new generation of commercial vehicles

Meanwhile, traditional European diesel fuel-injection systems, in which the injector is opened hydraulically, continue to be developed. For diesel makers wanting to meet Euro 2 emission laws, without the virtually total engine redesign needed to accommodate HPI or DDEC, Bosch will be supplying its new RP 39/43 sleeve-valve pumps which feature electronic control of injection timing and fuel metering (quantity).

Constrained by an inherent injection pressure limit of about 1300bar, their installation will mean, for the same low emission levels, say the proponents of HPI, a greater fuel thrust. On one trend all truck and bus builders agree: more electronics are inevitable and not just on engines.

Interactive electronic connections between the engine,

semi- or fully-automated gear-change systems, and anti-skid and anti-wheelspin systems are already the subject of extensive road trials. Safety as well as vehicle operating efficiency are driving such developments, as commercial vehicle manufacturers struggle to endow

buses, where the compressibility of the air in pipes running from the driver's brake pedal to actuators on the rear-most axle create a built-in delay. A "brake by wire" system can eliminate that piping, each brake actuator being fed via an adjacent air reservoir and solenoid valve.

Unfortunately, progress is inhibited by the need for both halves of articulated tractor-trailer combinations to be equipped for electronic braking. In a big fleet that hampers interchangeability and hence operational flexibility.

Given most truck operators' conservatism, even sceptical, view of electronics - especially the thought of them applied to often neglected and abused trailers - it is hardly surprising that "braking by wire" has been greeted less than enthusiastically.

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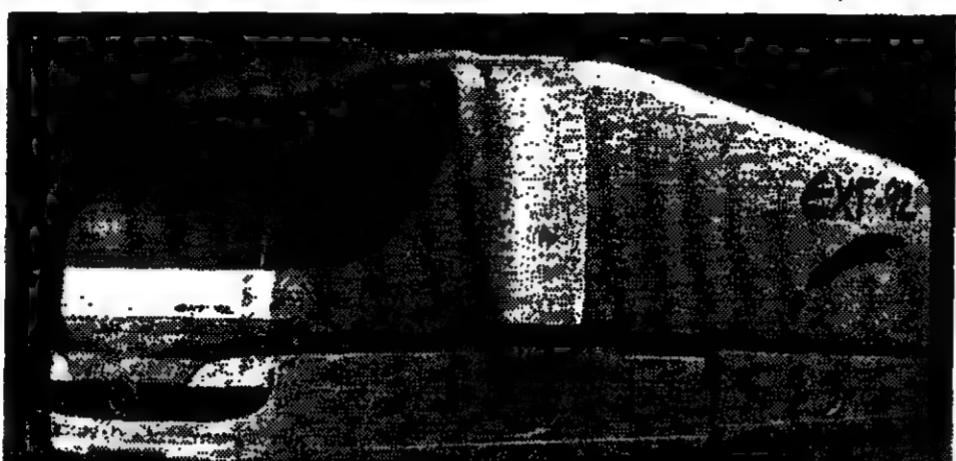
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...and Mercedes-Benz shapes up for a new generation of commercial vehicles

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Unfortunately, progress is inhibited by the need for both halves of articulated tractor-trailer combinations to be equipped for electronic braking. In a big fleet that hampers interchangeability and hence operational flexibility.

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## JAPAN

## Sales bubble of the 1980s bursts

JAPANESE truck makers, hit by the downturn in the country's economy, are now hoping the government's public works programme will prop up demand. The cut in capital spending by Japanese companies has caused truck sales to plummet, and the end of the construction boom has added to the gloom.

Purchases of highly-priced products have been cut sharply, and sales in medium and large trucks have been the hardest hit in the vehicle market. The lengthy life span of commercial vehicles is also hampering demand growth.

The 4 per cent decline in corporate capital expenditure for the present fiscal year is hurting truck sales. Large truck sales for the first 10 months of this year have fallen 20.3 per cent to 138,707 units from the previous year. For the full year, sales are expected to be about 150,000 units, down sharply from the peak of 1987.

Profits for the truck makers have been hit accordingly. Hino, the industry leader, with about 30 per cent of market share, said net profits for the first six months to September plunged 66.8 per cent to ¥1.44bn. Nissan Diesel fared worse, posting a net loss of ¥119m.

In the boom years of the late 1980s, the sharp rise in demand from construction, real estate, and trucking drove up sales for truck makers. However, the construction industry is likely to see more than a 10 per cent fall in orders for the present fiscal year, and the transportation industry is also experiencing a slowing in demand.

Hino, however, says it expects the government's public works spending programme, which is part of the emergency economic package, to boost sales. Last August, the Japanese government announced a ¥10,700bn emergency spending package to support the faltering economy, the bulk of which is to be spent on public works. Hino says that the public works programme will increase demand by some 20,000 units for the industry next year.

Mr Jonathan Dobson, motor industry analyst at brokers Jardine Fleming in Tokyo, has his doubts. He says an increase in public works spending will not necessarily mean new demand from construction companies, since the life cycle of a truck is about 10 years. "There were lots of trucks bought during the bubble, and companies will bring those into

Japanese motor vehicle production				
	Units	% change	Units	% change
1982	3,783,218	-7.8	55,950	-34.9
1983	3,903,823	3.2	55,944	-16.5
1984	4,319,538	10.6	72,225	29.1
1985	4,544,588	5.2	72,581	10.2
1986	4,407,588	-3.0	42,342	-42.8
1987	4,308,100	-2.3	49,587	18.1
1988	4,443,884	3.2	57,413	14.9
1989	5,931,285	11.5	42,074	-26.7
1990	3,496,639	-11.0	40,185	-4.5
1991	3,447,814	-1.4	44,449	10.6

1 Represents change from previous year. Source: Japan Automobile Manufacturers' Association

Japanese new motor vehicle registrations				
	Units	% change	Units	% change
1982	2,201,366	-1.8	21,793	-4.8
1983	2,226,386	1.1	20,310	-6.8
1984	2,320,836	4.2	20,267	-0.2
1985	2,431,178	4.7	21,573	6.4
1986	2,540,174	4.5	21,617	0.2
1987	2,721,581	7.1	22,016	1.9
1988	2,980,103	9.5	23,542	6.9
1989	2,629,364	-5.1	23,530	-0.1
1990	2,649,200	0.3	24,926	5.9
1991	2,632,730	-0.6	23,796	-4.5

1 Figure includes imported vehicles. 2 Represents change from previous year. Source: Japan Automobile Manufacturers' Association

use rather than buy new ones." Additionally, most of the trucks are operated by non-construction-related private companies. And since 70 per cent of vehicles engaged in construction-related operations work for the private sector, which is not expected to recover for another few years, the truck companies' projections may be over-optimistic.

Shin Maywa Industries, a leading maker of specialty vehicles, such as dump trucks, believe the fall in demand from south-east Asia has bottomed out. The reconstruction of Kuwait is also contributing to the rise in exports.

However, the rise in exports has not been able to compensate for the fall in domestic sales. While increases in exports to China, India and Pakistan may hold potential business opportunities in the longer run, truck makers admit in the short term, profits will not be covered simply by exports.

The environmental issue is also pressuring profits, as the series of government regulations over gas emission of trucks planned to start in 1994 is forcing companies to increase spending on research and development.

Most truck companies agree that times are hard, and many, including Hino, are looking to diversify into other industries. Mr Koji Endo, analyst at SG Warburg Securities in Tokyo, says while the government's public works spending will provide underlying support, the industry may not see a fully-fledged recovery until 1996.

One bright spot for commercial vehicles may be connected to the environmental theme. The surge in the country's garbage waste has pushed up demand for garbage trucks. Shin Maywa says sales over the next few years are expected to rise by a stable 5 per cent.

Emiko Terazono

## Profile: HINO MOTORS

## Export path through industrial recession

HINO MOTORS, Japan's leading truck maker, is earning money.

However, its net profits for the year to March 1993 fell 41.1 per cent to ¥7.36bn, and in the first half of the current year profits slipped again by 66.8 per cent to ¥1.44bn.

As a 0.5 per cent return on ¥307.2bn of sales, profits are dismal. Yet with rival makers Isuzu and Nissan Diesel both in the red, Hino is in relative terms coasting through Japan's industrial recession.

What is helping Hino through hard times are the decades during which Hino carefully cultivated markets throughout the rest of Asia, where unlike Japan, North America, and Europe, most economies are still thriving. Asia's sales, and the company's profits, are the mainstay of Hino's business.

Hino's sales of medium- and large-scale trucks at home fell from 38,511 units in the first half of the last fiscal year to 20,030 this year, and Hino expects a full year decline of 24 per cent. The value of sales in the first half was off by 34 per cent to ¥81.73bn.

Yet overseas was a different story. Exports of medium and large trucks rose from 10,065 units to 13,011, with most of the increase in the more costly heavy trucks. As a result, export revenues from these products rose by 53 per cent to ¥40.69bn.

The stunning rise in export sales was in the end not enough to compensate for the slackening of the Japanese market, and total sales were down by 2.5 per cent. Yet Hino's strong export business has provided it with an invaluable cushion against the recession, and has allowed it to keep its

assembly plants working more or less at full capacity.

Hino has taken some steps to trim costs. It is, for example, trying in three years to reduce by 30 per cent the 3,000 different vehicle types that it now offers to its customers. Yet it has not been forced, like some other leading manufacturers, to cut back drastically on part-time labour, or to cut directors' salaries.

In the first half of the year, truck sales to Taiwan rose by 90.5 per cent to 4,032 units, both because of the buoyancy of the economy, and because the government introduced regulations to prevent overloading vehicles, forcing fleet operators to enlarge vehicles fleets to maintain capacity. Sales to Thailand shot up by 42.4 per cent to Hong Kong 35.6 per cent, while sales to China more than doubled.

Perhaps even more important, the outlook for economic growth in the Asian region - as opposed to most of the developed world and the former Soviet bloc - continues to look very strong. Hino is doing business in the right place, and can look forward to continued buoyant export sales.

At home, Japan is unlikely for a long time to provide the kind of growth seen in the late 1980s. Yet there are some favourable signs. The government in late August announced a ¥10,700bn package of emergency economic measures aimed at boosting the economy, and much of this money will be spent to increase public works spending, including construction.

Hino estimates the package will increase demand for trucks by some 5,000 units this fiscal year. The impact next year could be larger.

Hino has also been holding its own domestically. Its 29.3

per cent share of the domestic market was nearly unchanged from last year, with the share of large trucks up 2.4 percentage points to 31.9 per cent while medium trucks were down by 1.8 percentage points to 27.3 per cent. The rise in the market share for large trucks was partially the result of a full model change in May.

Hino's business is also underpinned by a close relationship to Toyota, Japan's largest and financially strongest car maker. Toyota is Hino's largest shareholder with an 11.2 per cent stake, and in the first half of the year consolidated production of 173,730 vehicles, worth ¥122.6bn, to Hino. Hino's production of Tercel, Corolla, and Corolla II models were down, but production of Hilux, the small commercial vehicle, rose.

In spite of an underlying strong business, however, Hino profits have suffered for fundamental the same reasons that profits have fallen in Japanese industry. For one, Hino's capital investment nearly doubled in two years to peak at ¥42.1bn last year.

Although this year it is budgeted to drop to ¥38bn, Hino is paying heavy depreciation charges on earlier investments at a time when sales, and therefore, prices, are slack.

Hino is also paying sharply higher distribution costs, and wages have also gone up significantly. Lower interest income, and sharply higher interest payments on bonds has also undermined non-operating profits.

As a result, in spite of underlying strong business and no real financial difficulties, Hino will have to wait to see any significant improvement in financial performance.

Steven Butler

## EASTERN FRANCE

■ Incentives attract a wave of investment: see pages 3 and 4

■ How industrial diversity has brought success: see page 2

## SECTION IV

Monday November 23 1992

The three eastern regions of Champagne-Ardenne, Lorraine and Alsace illustrate in vivid microcosm the challenges and opportunities facing modern France, reports William Dawkins

## A cultural melting pot

GROUPING together 5.2m inhabitants, more than the entire population of Denmark, the three eastern regions of France are getting to grips in their different ways with the competitive challenges thrown up by the country's central role in Europe. The big issues facing eastern France today are as diverse as its geography, which stretches from the fertile hills of Champagne, through the remote forests of Les Vosges mountains to the industrialised Rhine valley.

They include the problems faced by the huge cereals farms of the Marne as the reforms of the European common agricultural policy begin to bite; the impact of recession on the champagne industry; Lorraine's attempts to modernise its industrial base after heavy job losses in its steel, coal and textiles industries and Alsace's bid to forge closer links with its German neighbours on the east bank of the Rhine, as this pivotal region exerts increasing autonomy from Paris.

These challenges do, however, have one thing in common. They are all linked in one way or another with the obligations and opportunities thrown up by European Community membership, an issue which runs especially deep in a part of France that provides the physical and cultural link with northern and central Europe.

"We are at a crossroads, not just of motorways but of cultures... we are no longer at a frontier. We are in front of a new region that links France and Germany, Paris is no longer at the heart of Europe," says Mrs Catherine Trautmann, mayor of Strasbourg.

The sentiment is echoed by Mr Bernard Guerrier de

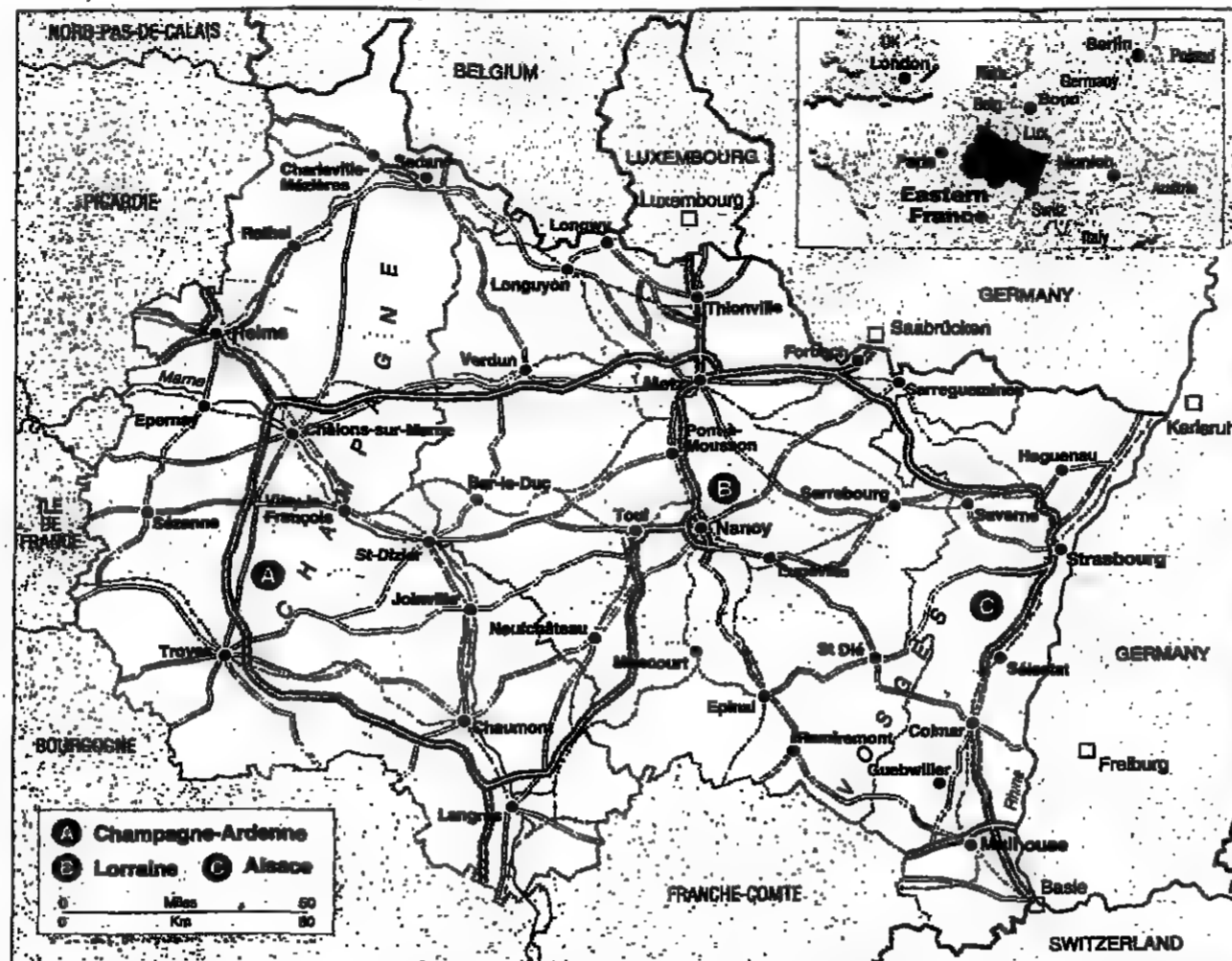
Dumast, deputy mayor of Nancy: "We are a melting pot, a synthesis of German and Latin culture. We have always lived, for good or ill, with the idea of Europe."

It is no surprise that, like the rest of the country, the three regions were passionately divided on European monetary and political union in France's September referendum.

Alsace, where the regional capital Strasbourg is home to the plenary sessions of the European Parliament, produced the biggest pro-Maastricht majority of any region in France - 66.2 per cent. Lorraine also said yes, despite a pocket of resistance in its southern department of Les Vosges, fiefdom of Mr Philippe Séguin, mayor of Epinal, the rebel RPR Gaullist politician who led the anti-treaty campaign. Meanwhile, neighbouring Champagne-Ardenne produced a 'no' vote, reflecting the strength of the agricultural lobby there.

Traditionally, eastern France has always been a centre of political, industrial and financial influence, albeit a fragmented one. For the three regions appear to co-operate less with each other and have less in common than they do with their foreign neighbours in Germany, Belgium and Switzerland.

Apart from Mr Séguin, tipped as a possible future leader of the Gaullist RPR, and the forceful young Socialist Mrs Trautmann, the east is the local political base for Mr Gérard Longuet, president of the conservative Parti Républicain, who unseated Mr Jean-Marie Rauch, a centrist former Socialist government minister, as president of the Lorraine regional council after the



regional elections last March.

Other local heavyweights include Christian Poncelet, a senior RPR senator and former government minister, who now heads Les Vosges departmental council and Mr Antoine Wechter, leader of the 'Greens' party, who is a vice-president of the Alsace regional council.

The east is also the traditional cradle of some of the biggest names in French industry, reflected in the continued existence of a large industrial workforce and a small service sector.

Alsace, for example, is home to De Dietrich, the engineering and kitchen equipment group which is France's oldest family controlled company, as well as to carmaker Peugeot's showpiece plant at Mulhouse, assembly centre for its newest model, the 105.

In neighbouring Lorraine there is Pont à Mousson, the pipes division of Saint Gobain, three plants belonging to Usinor Sacilor, the state-owned steelmaker, plus three-quarters

of French coal output. Financially, the east boasts France's second largest banking centre, based in Strasbourg, where Crédit Mutuel, Cial and Sopéhal have made a specialty in lending to export oriented local industry.

Like other French regions, they are all striving to use the decentralisation of power initiated 10 years ago to seize more of the initiative in their own economic development - but with mixed success.

"This is a decentralised country, where all the key decisions are still taken in Paris," mourns Mr Guerrier de Dumast. "Too many big investment projects go to the Paris region, which still exerts a power of attraction that the provinces cannot resist. Without a will to reverse this in Paris, it will never turn back."

The east has, however, managed to attract a wave of foreign investment, partly thanks to its central geographical position in the EC. This has also been helped by generous aids

available in Lorraine, keen to diversify away from its traditional industries, plus a network of internationally active economic development agencies.

It has also benefited in a small way from the Paris government's attempts to spread more of the central bureaucracy out to the provinces, with the recent move of the prestigious Ecole Nationale d'Administration to Strasbourg, and the move of the CNRS national sciences research centre library to Nancy.

But the east has not yet won the battle in what has become a test case of the power struggle between Paris and the regions, the continuing wran-

gle over the financing of a new Trans Europe high speed rail link from Paris through Strasbourg and on to Germany's Inter-City Express network.

The line, due to open early in the next decade, is desperately wanted across eastern France. Businessmen in Les Vosges complain that road and rail links to neighbouring regions are poor, while Alsace sees the line as an important step in the economic development of the upper Rhine valley and a catalyst to trade between France and eastern Europe.

"We see the TGV as a symbol of *désenclavement*, breaking out from our regional isolation," adds Mr Gérard Cherpion, president of the Saint-Dié

chamber of commerce, near Les Vosges' border with Alsace.

However, the SNCF French rail board's traffic forecasts on the French section of the TGV-East are so poor that it wants the three regions to contribute a combined FF8bn to the FF26bn cost of the project and to charge 30 per cent above normal TGV rates for the tickets.

They have responded with an initiative launched by Strasbourg's Mrs Trautmann, to create an association of French and German regions to lobby both Bonn and Paris for a Franco-German TGV link. The lobby has been effective, in that it produced in July an agreement in principle from

President François Mitterrand and Chancellor Helmut Kohl that there should be such a link.

Yet, the crucial question of who pays remains to be settled. Mrs Trautmann accepts that the regions should make some kind of contribution, but argues that the profit forecasts become much better if calculated on through traffic on both the French and German sections, rather than the French part of the line alone.

Others are less moderate - "why should we have to pay, when Rhône-Alpes and Brittany got their TGV for free?" asks a Les Vosges local government official.

Many others in eastern France agree.

## Lorraine shakes off its old blackspot image

## Rebirth of a region

THE slow pre-programmed death of Lorraine's state-owned coal mines, the largest and most efficient in France, is an object lesson to the British government as it grapples erratically with its own coal industry closures, writes William Dawkins.

Lorraine is today beginning to shake off its old image as France's industrial blackspot, having lost 16,000 coal jobs over the past 25 years, not to mention 75,000 in steel and iron ore mining and 26,000 in textiles.

Remarkably, the region has lived through this industrial cataclysm without serious social unrest. There was violence in the early stages of the steel closures and token strikes in some coal mines, but there has been nothing approaching the scale of the British coal strike under the government of Mrs Margaret Thatcher.

Today, Lorraine has an unemployment rate of 9.4 per cent, slightly below the national average and one of the highest flows of foreign investment in provincial France after its prosperous little neighbour, Alsace.

The rebirth is, however, far from perfect in that few of the new jobs have been created in high technology industries - and businessmen complain of a shortage of advanced services such as software consultancy in Lorraine.

According to Anvar, the state research agency, nearly three-quarters of Lorraine's industrial workforce is employed by companies that devote less than one per cent of their value-added to research and development.

Some job creation schemes have had a difficult ride. One of the oddest is Parc des Schtroumpfs, a FF1bn theme park near a former steel works in Hagondange, based on the cartoon characters known as Smurfs in the UK. Backed by Usinor Sacilor and the regional government, it went into liquidation in 1990, only a year after opening, because the number of visitors fell dramatically short of target, but was rescued by Walibi, the Belgian

theme park operator.

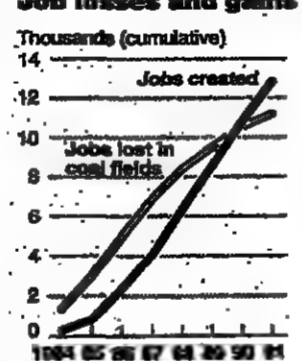
Others have been reassuring. Like the growth of a community of plastics companies around St Amand, on the northern Lorraine border with Germany, now the second largest plastics centre after Oyonnax in Rhône-Alpes.

The transformation of Lorraine has been successful enough to attract international attention. The Polish and Czechoslovak governments, which have asked Sofirem, the 25-year-old job creation arm of Charbonnages de France (CdF) for advice on how to reduce the pain of coal mine closures in their own countries.

Sofirem has helped more than 400 new and existing companies over the past eight years and claims an 85 per cent success rate.

So what is the secret? Out of Lorraine's three traditional industries, the Saar coal fields in the north-east of the region stand out for having

made planned closures more or less evenly over a period of 25 years, so spreading the pain relatively thinly. The iron and steel job reductions in around Longwy and Thionville in the north and Pompey and Neuvemaisons in the south, were less evenly planned, because the outlook for the French steel industry was never as bleak as



Source: Hoffmann & La Roche, Luxembourg



The eastern region is famous for its wines: see page 4

## Alsace : Smile, you're wonderful

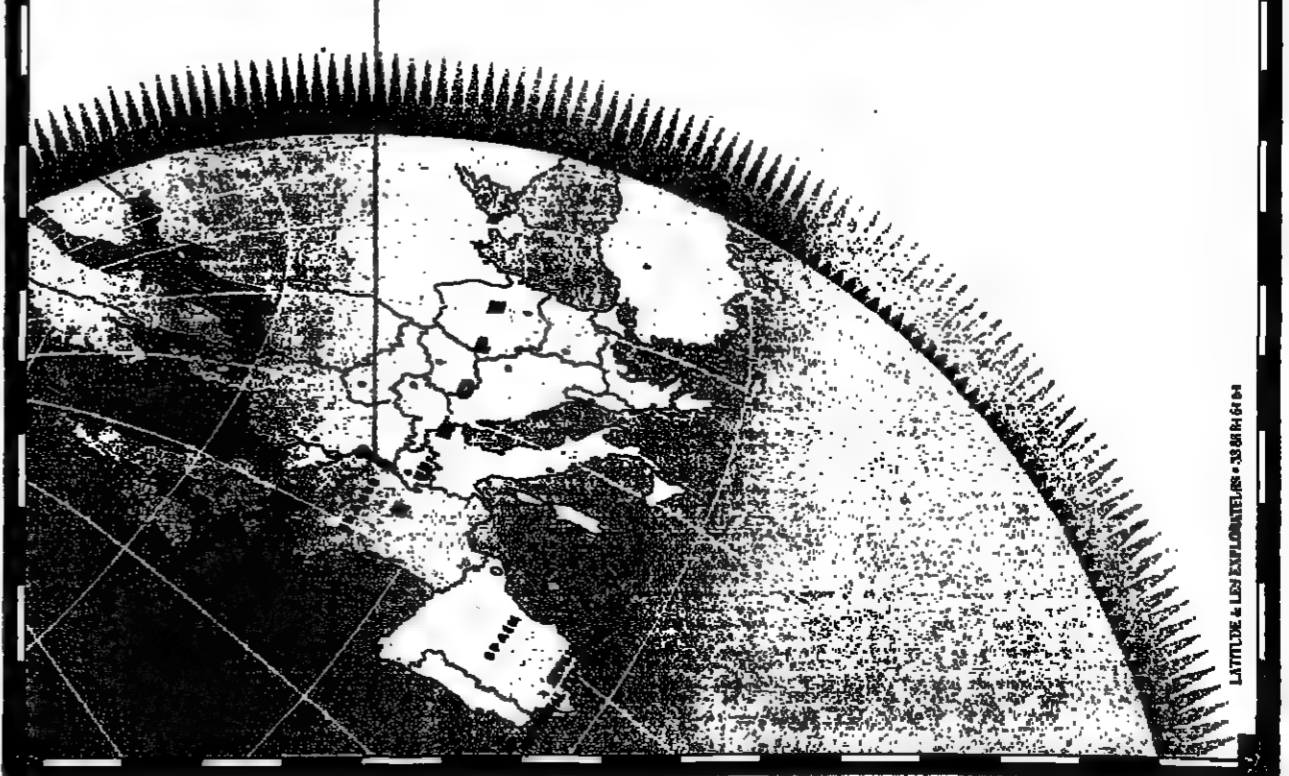
French region bordering Switzerland and Germany • 1.4 million inhabitants • 8 200 square kilometres • Gross Domestic Product (G.D.P.) per inhabitant amounting to \$ 17 000.

Alsace, the only French region present at Seville EXPO'92 as an official partner of France, would like to thank the five million enlightened people who paid us a visit at the French pavilion. They know that Alsace ranks among the first regions in the EC for its business friendly environment, its dynamic economy and its superb quality of life. They could tell you that Alsace scores first in France for exports per head, first after Paris for turnover per head.

No wonder, considering the high quality of your products. For scores of business people and decision-makers worldwide, Alsace in Seville was the key to new partnerships. Over 2000 contacts were established between Alsatian companies and firms from all over the world, eager to take advantage of our highly-skilled workforce and our technological and scientific potential. Alsace in Seville was sponsored by 100 regional companies, a partnership which gave them unprecedented worldwide exposure.

Located at the heart of Europe, we are, by nature, open to the world. Come and see us. At home. A comprehensive survey on the economy of Alsace, published for Expo'92, is available on request.

Five million thanks to all the wonderful people who came to see us in Seville. Let's keep in touch. Come and see us again. In Alsace.



L'ALSACE - LES EXPLOITATIONS - 35 000 000 000

## EASTERN FRANCE 2



A section of the Place Stanislas, Nancy. Buildings erected by Stanislas I, the last Duke of Lorraine, constitute one of the most perfect and homogeneous examples of 18th century French architecture.

IT IS hard to imagine that Nancy, an elegant and prosperous town with some of the finest 18th century buildings in France, has ever seen an industrial crisis.

Yet the area around the largest town in Lorraine has lost more than 10,000 jobs over the past decade, mainly from the state-owned steel plants at nearby Pompey and Neuves-Maisons.

Over the same period, more than 8,000 new jobs have been created, partly thanks to a wave of foreign investment, and partly thanks to start-up businesses fostered by the departmental and city authorities. As an industrial centre, Nancy, has traditionally been a base for chemical, clothing and food-processing industries. It has also developed as a financial and administrative capital.

"We have survived the crisis of re-industrialisation better than Lorraine as a whole because of our tradition of technical education," claims Mr Bernard Guerrier de Dumast, deputy mayor and president of Nancy Technopole, the town's technological showpiece. The Technopole, built up over the past 30 years by the city and regional authorities, provides cheap office space and advice for about 100 small businesses grouped on Nancy's university park, with start-up capital



Bernard Guerrier de Dumast, deputy mayor of Nancy and president of the Technopole, the town's technological showpiece



Kimberly-Clark, the tissue and paper products group, has a plant at Villey Saint Etienne, Lorraine

An emphasis on technical education pays off in Nancy

## Industrial turnaround

available through the Institut Lorrain de Participation. The intellectual nucleus for all this comes from Nancy's three universities - the first of its uni-

versities was founded as far back as 1572 - and its five prestigious civil service technical schools, which were originally established to train engi-

neers for the coal and steel industries. They are now being encouraged by the Technopole to bring forward high technology projects that could be

turned into commercial propositions on site. The body responsible is Promotech, a small business consultancy service backed by the city

authorities, which estimates that 80 per cent of its clients are still in business 10 years after starting up. Nancy does not, unlike some other towns, pump aid into start-up businesses, emphasises Mr Guerrier de Dumast - "that would be complete folly and only harm the businesses which already exist," he explains. "On the other hand, our job is to help them do well."

William Dawkins

Epinal's industrial diversity brings success

## Textbook solution

EPINAL, capital of the department of Les Vosges, is a textbook case of how to respond to the long-term decline of a traditional industry.

Until 30 years ago, it was the thriving capital of the French textiles industry, known for its images d'Epinal, popular cotton prints of French historical scenes.

Since then Epinal and the wooded valleys around it have lost 35,000 textile industry jobs in the face of low-cost Far Eastern competition, so that today the sector employs only a quarter of the workforce. Les Vosges' reputation as an area that fears it has much to lose economically was further reinforced when it produced a solid majority against the Maastricht treaty in the Sep-

tember referendum. Yet Epinal has survived the textile downturn surprisingly well, by turning its mechanically well-qualified and comparatively cheap workforce to other sectors, such as paper - another traditional Vosges industry - and engineering, which between them now employ a quarter each of the department's workforce.

The Vosges softwood forests and the proximity of cheap nuclear-generated electricity have attracted leading Scandinavian paper companies on the look-out for an entry to continental Europe, such as Norsk-Skog Industrier, which last year opened a FFr2.8bn paper plant at Golbey just outside Epinal, the department's biggest ever foreign investment.

Engineering has become the department's biggest single employer, partly through the creation of small independent businesses by former textile workers.

The sector has also been helped by the arrival of foreign investors like Trane, the US producer of heating and cooling equipment which is the largest private sector employer in Lorraine, and whose presence has inspired the start-up of around 10 sub-contractors since its arrival at Golbey in the early 1960s.

"We have found here a flexible workforce, able and willing to adjust to new techniques," says Mr Antonio Gallo, Trane's sales director for Europe and Africa.

William Dawkins

New colour TV plant at Fameck, near Metz

## Korean investment

tion on French soil.

Having decided on France for TV manufacture, Daewoo then looked at various sites. But it eventually rejected the idea of taking over facilities being abandoned by Alcatel at Cherbourg and Bull at Belfort, and opted for a green field site at Fameck.

"Within a 500 kilometre radius of Fameck, you have a market of some 50-60m people", says Mr Bae.

Another possible site for Daewoo TV-making with the same general geographical advantages was Strasbourg. But the Korean company decided to go further north, because it has already been making micro-wave ovens for the past

four years at Longwy. "With people coming from the steel sector in this region, you have a very skilled work force," says Mr Bae.

In July the European Commission launched a wide-ranging dumping inquiry into TV sets imported direct from the Far East.

Did Daewoo feel compelled by such EC trade moves to invest in Europe? No, says Mr Bae. Daewoo took its decision to manufacture TVs in Europe more than a year ago, but it needed some time to complete negotiations with the French government and the European Commission's regional fund which are, together, paying one third of the Fameck plant's capital cost.

But Mr Bae admits that the EC dumping inquiry "re-inforces the logic of our decision to manufacture locally in Europe."

David Buchan

Profile: the mayor of Epinal

## Parachutist on the right

MR PHILIPPE SEGUIN is better known as a leading rebel member of the conservative RPR party than as mayor of Epinal, a job he has held for the past nine years, writes William Dawkins.

Now aged 49, Mr Seguin achieved national distinction two months ago when he emerged as leader of the campaign against the Maastricht treaty on European monetary and political union.

His arguments that the treaty was an affront to national sovereignty reflected the mood of his own electorate in Epinal and Les Vosges (where Mr Seguin is also MP), which showed up as islands of anti-Maastricht sentiment in the otherwise pro-treaty region of Lorraine.

His Maastricht campaign reinforced Mr Seguin's claim as a possible successor to Mr Jacques Chirac, the RPR leader, despite a lacklustre performance in a television debate with President Francois Mitterrand.

Unlike his counterpart in Strasbourg, Mr Seguin was not born and brought up in the town where he is mayor - a common phenomenon whereby

French political parties "parachute" promising supporters into local government jobs.

Mr Seguin, born and educated in Tunisia before its independence from France, is a graduate of the Ecole Nationale d'Administration, the training ground for many in the French political and business elite, and was a junior minister in the 1986-1988 Gaullist government. He looks

likely to become an influential member of the French cabinet if, as seems likely, the right wins next March's legislative elections.

Far from neglecting Epinal in pursuit of his national ambitions, Mr Seguin has cultivated his local base, working hard to lobby foreign companies to come to Les Vosges and overseeing an unprecedented increase in investment in leisure and cultural facilities by local government in Epinal.

He complains, however, that the economic development of Les Vosges is handicapped by a lack of co-operation between towns and communes; a shortcoming apparent in many other French provinces as they get to grips with decentralisation.

## Over 13,000 jobs created in Lorraine

### WAGE RATES COMPARED

Listed here are average hourly wage rates, expressed in French francs, as at June 1991, as estimated by the European Community

	In France = 100
Germany	148 121
Belgium	146 120
Netherlands	124 101
France	122 100
Italy	122 100
UK	93 76
US	106 87
Japan	109 90

Continued from page 1

Richard Muller reckons that, all kinds of assistance included, each of the 13,568 jobs created or aided in Lorraine's former coal fields has cost the public purse FFr100,000 - "on an international comparison, we think that is pretty reasonable," he claims.

Another important element has been the advice and training organised by Sofrem and the Cdf itself, says Mr Jean-Jacques Fix, Sofrem's Lorraine regional manager.

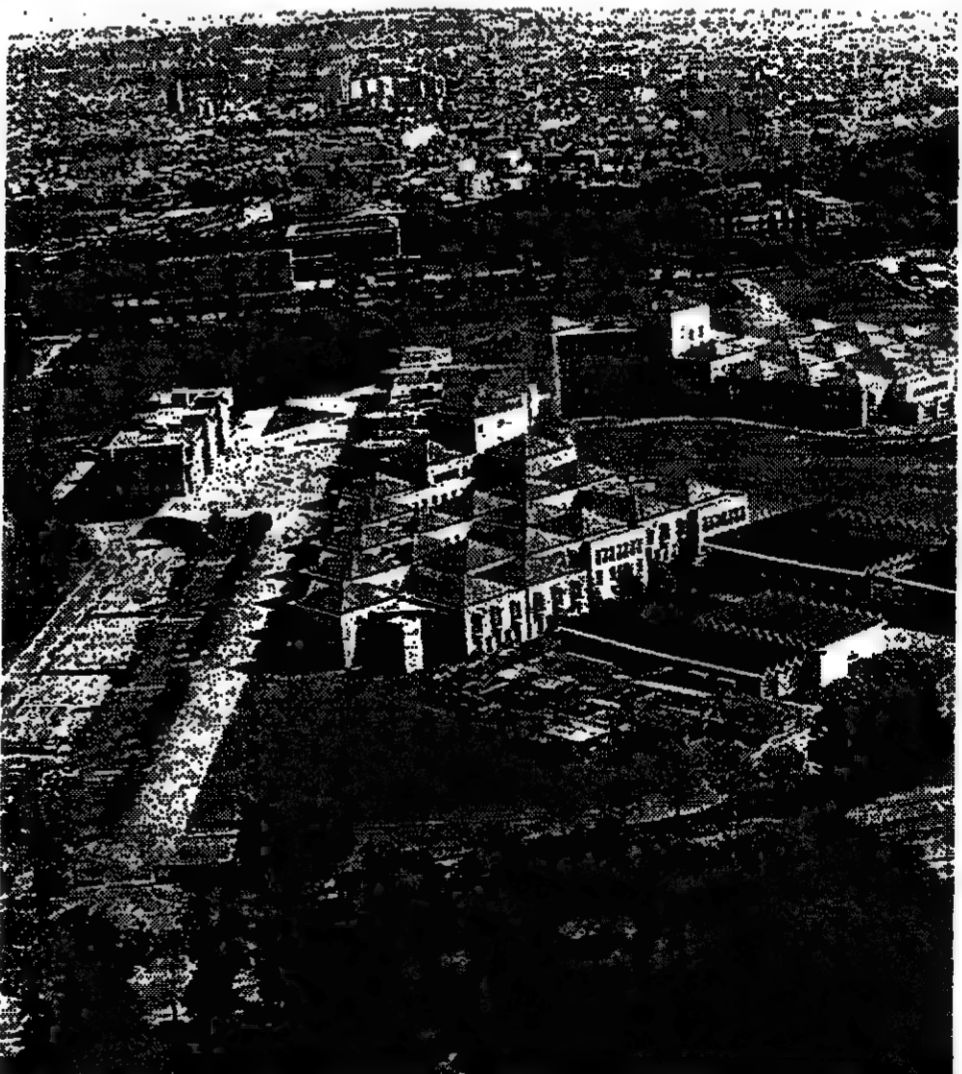
Sofrem offers start-up equity funding for former coal miners seeking to set up their own businesses and helps them present their cases to bank lenders.

Most former miners, however, prefer the safer course of getting a new job with another employer, often a foreign investor.

Here the Cdf funds retraining, pays former employees' salaries for a trial two months in a new company and runs a prospecting service for employers and employees.

"We can offer people of high quality and motivation," says Mr Fix.

The British government is not the only one who might



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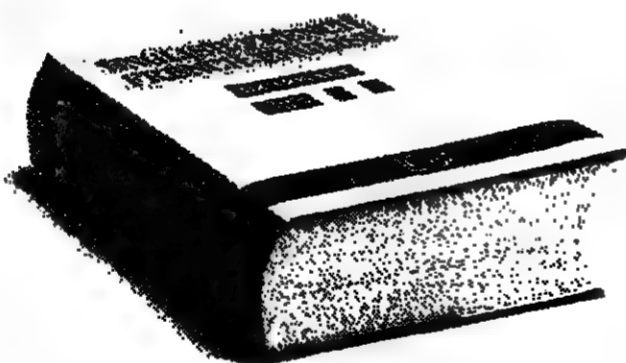
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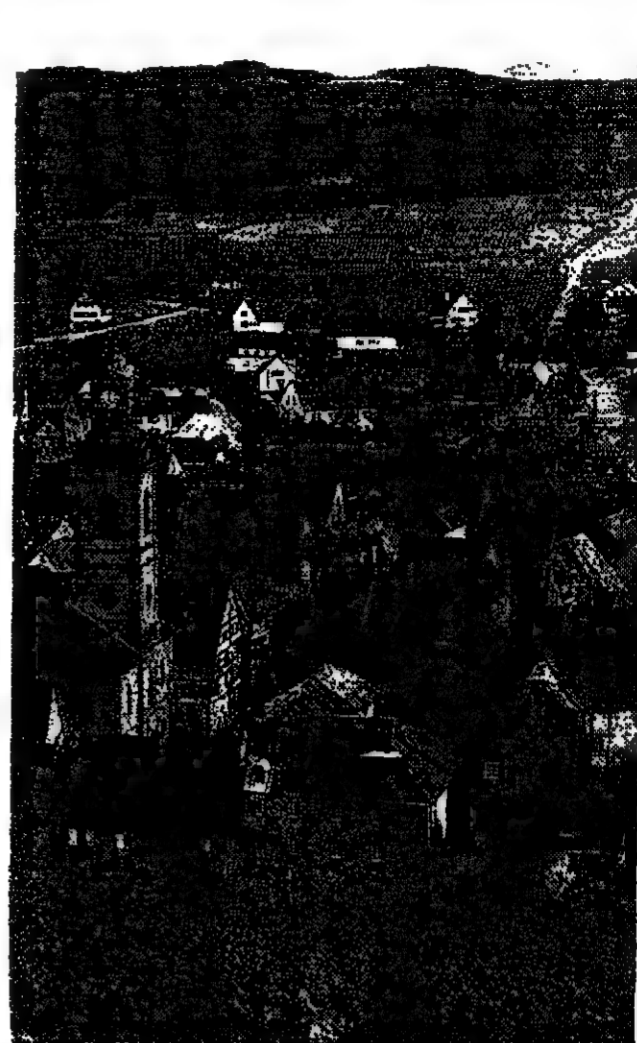
## EASTERN FRANCE 3



Culinary delights: local chefs parade traditional dishes in Strasbourg



Vineyards in the Alsace region



The picturesque wine village of Riquewihr in Alsace

## Strasbourg, capital of Alsace

## International identity

**S**TRASBOURG is the most western city in Mitteleuropa, according to its forceful young mayor, Mrs Catherine Trautmann (see personality profile, below).

Strasbourg, the capital of Alsace, looks and feels almost like a German provincial town, with its steep tiled roofs and half-timbered houses. Yet its identity is firmly international.

The city's traditional European credentials — as the venue for the plenary sessions of the European Parliament and the base of the Council of Europe — were recently reinforced when its citizens pro-

duced a 73 per cent 'yes' vote in the September referendum on European political and monetary union — the biggest pro-Maastricht majority in France.

President François Mitterrand was no doubt grateful for this, but the result was unsurprising, because many thousands of Strasbourg residents owe their living to various

forms of European co-operation. The parliament, the fast-expanding council, the European Court of Human Rights and the institutions associated with them have been joined over the past year by the planning team for Europol — the Franco-EC police co-operation unit — and Arte, the new Franco-German

cultural television channel. It was partly a recognition of Strasbourg's diplomatic and intellectual richness, as well as France's busiest conference centre outside the capital, that the French government chose it as the new site for the elite civil service college, the Ecole Nationale d'Administration. The college will move there

from its Paris headquarters next January. The city is, however, far more than a think-tank on the Rhine. It also happens to be France's second banking centre after Paris, harbouring the headquarters of nine big regional banks, representing a balance sheet total of FF220bn.

This is a reflection of the town's long history of innovative banking, founded on Franco-German trade and its skill in adapting the concept of mutual banking from the German invader at the end of the last century.

Crédit Mutuel, Alsace's largest bank, broke new ground again in the early 1970s by becoming the first French bank to offer insurance policies, launching the idea of "bancaassurance" now widely followed by its national competitors.

William Dawkins

## Strasbourg's mayor has a twin-track career

## Talented lobbyist

**T**HE vivacious Mrs Catherine Trautmann, the 41-year-old mayor of Strasbourg, is in the forefront of the young generation of leaders to have seized the initiative from Paris in defending Alsace's interests, writes William Dawkins.

Mrs Trautmann's unexpected victory in the municipal elections three years ago gave the traditionally centre-right Strasbourg its first Socialist mayor since the 1920s. She wasted no time in exercising her talent for lobbying the Paris bureaucracy by leading a Franco-German campaign to put pressure on a reluctant SNCF rail board to build a new

Train à Grande Vitesse line east from Paris to Strasbourg.

When the SNCF complained that the French section of the line would not be profitable enough to be built without heavy financial help from local government, Mrs Trautmann promptly formed an association of the French and German cities concerned to prove to the Paris government that the line would be highly profitable if linked to the German high speed rail network.

"It is an axis of integration to link the European Community to its new members in the east," argues

Mrs Trautmann, who accuses the SNCF of viewing the project on a narrowly French perspective. The line is expected to come into service in 1999 or 2000, depending on the outcome of the dispute between the SNCF and the regions over financing.

This European reflex is typical of Mrs Trautmann's style; she is also an active member of the European parliament. "Strasbourg is a laboratory for Europe and

we want it to stay that way," she says. Like an increasing number of French politicians, Mrs Trautmann, a one-time junior minister under the former government of Mr Michel Rocard, attaches great importance to building her local power base. Earlier this year, she refused the offer of another ministerial job on the grounds that she wanted to keep her twin mandate as mayor and European MP.



Mrs Catherine Trautmann: vivacious lady of the left



Peugeot cars for export are carried by rail from Mulhouse to Calais. Peugeot has overcome its manpower problems and become an industrial success story — "a testament to the flexibility of the workforce," says the company which now operates rigorous delivery schedules. (Picture by Terry Kirk)

## The transformation of Peugeot at Mulhouse

## A flexible workforce

**D**RAMATIC changes have taken place over the past three years at the Mulhouse assembly plant of Peugeot, the car maker which is the biggest employer in Alsace, writes William Dawkins.

In the autumn of 1989, the sprawling suburban plant, which occupies more than 350 hectares — nearly the same size as the centre of Mulhouse itself — saw the start of one of the most damaging pay strikes in Peugeot's history.

The dispute spread to Sochaux — Peugeot's other main centre in neighbouring Franche Comté — inflicting a serious blow on Alsace's traditional reputation for stable labour relations. Since then, the Mulhouse plant and its 12,500 staff have overcome that trauma to become an industrial success story.

Mulhouse has been among the leaders in the Peugeot group in adapting Japanese-style production efficiencies, team management and just-in-time stock control, under its new production director Mr Alain Baldeyrou, who joined just after the strike.

In recognition of this, Peugeot chose Mulhouse last year for the assembly of the 106, its latest hatchback, currently rolling off the production lines at 1,400 vehicles per day, the highest output in the plant's 30-year history.

Over the past 10 years, Mulhouse has reduced the period

from order to delivery at the factory gate from more than 10 days to around seven and a half, and slashed its costs.

Suppliers now deliver at least daily, as a result of which nine component producers have moved to Alsace to be able to keep to Peugeot's rigorous delivery schedules.

Inside the plant, says Mr Baldeyrou, "we've tried to create motivation among the operating personnel by making office staff understand that they are at the service of the operators."

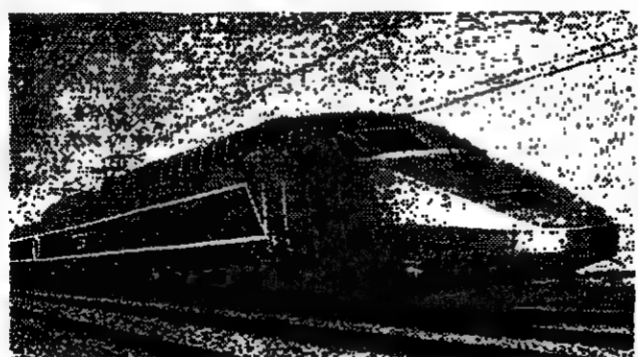
This strategy means that Mulhouse only allows machine or car design changes to go ahead after consulting machinery operators, a previously unusual practice in the French car industry. By the same token, its workforce are encouraged to come up with ideas for improvements in car components and design. The coach-building shop alone has proposed 7,000 improvements over the past year, says Mr Baldeyrou with satisfaction.

The transformation of Peugeot at Mulhouse is a testament to the flexibility and dependability of the local workforce, believes Mr Baldeyrou. More than 15 per cent of the workers there are foreign, equally divided between the European Community and North Africa, with the rest mainly from Alsace.

However, any local employer also has to be wary of competition from more generous employers across the German

frontier, only 10 km away, where salaries are significantly higher, he warns.

Peugeot used to suffer from workers leaving to earn more in Germany, though Mr Baldeyrou says that problem has receded over the past year as the German economy runs into difficulties.



Eastern France faces a continuing wrangle with Paris over the financing of a new Train à Grande Vitesse high speed rail link from the French capital through Strasbourg and on to Germany's Inter-City Express network. The line, due to open early in the next decade, is urgently wanted across the eastern region. Alsace sees the line as an important step in the economic development of the upper Rhine valley and a catalyst to trade between France and eastern Europe.

Distances by main road routes from the Lorraine metropolises to other European cities are as follows:

- Paris — 300 km
- Lyons — 450 km
- Marseilles — 750 km
- Strasbourg — 160 km
- Brussels — 300 km
- Antwerp — 350 km
- Luxembourg — 60 km
- Rotterdam — 400 km
- Amsterdam — 450 km
- Cologne — 300 km
- Düsseldorf — 350 km
- Hamburg — 600 km
- Frankfurt — 300 km
- Munich — 600 km

Useful names and addresses for foreign investors in eastern France include the following:

- Regional council offices, Alsace: Hôtel de la Région, 35, avenue de la Paix, 67070, Strasbourg, Tel 8835-8857.
- Champagne-Ardenne: Hôtel

de la Région, 1 Cours d'Ormesson, 51057 Châlons-sur-Marne. Tel 2670-3131.

□ Lorraine: Hôtel de la Région, Place Gabriel-Hoquard, 57036 Metz. Tel 8733-6000.

□ Economic development organisations: Délégation à l'Aménagement du Territoire et à l'Action Régionale (Datat), 1 avenue Charles Floquet, 76700 Paris. Tel 4065-1234.

□ Association pour l'Expansion Industrielle de la Lorraine (Apellor), 11 place du Pont à Seille, 57045 Metz. Tel 8773-3518.

□ Comité d'Aménagement, de Promotion et d'Expansion des Vosges (Caper), 17 avenue Gambetta, 88000 Epinal. Tel 2983-4503.

□ Comité d'Aménagement, de Promotion et d'Expansion de Meurthe-et-Moselle (Capem), 8 rue Baron Louis, BP 378, F 54007 Nancy. Tel 8557-5225.

□ Association de Développement du Bas-Rhin (Adira), 5 Quai Kléber, F 67055 Strasbourg. Tel 3386-3224.

□ Comité d'Action pour le Progrès Economique et Social Haut-Rhin (Cahp), 17, place de la Cathédrale, F-68000 Colmar. Tel 8722-6000.

□ Alsace Development Agency, 1901 Avenue of the Stars, Suite 285, Los Angeles, CA 90067, USA. Tel 213 551-0535.

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## EASTERN FRANCE 4



Shoppers in central Mulhouse: the city practices rigorous Swiss-style environmental policies (Picture by Tony Andrews)

Mulhouse, the industrial heart of Alsace

## Tri-national heritage



Mulhouse has become an attractive centre for international companies

SINCE the late 18th century, Mulhouse has variously been part of Switzerland, Germany and France, a heritage which has left deep traces in the form of an eclectic way of life. Today, a casual visitor, arriving at Mulhouse-Basel airport - which straddles the Swiss frontier and is jointly managed with the Swiss authorities - can be forgiven for wondering which country Mulhouse is in, writes William Dawkins.

Mulhouse city dwellers, like other residents of Alsace, speak of the rest of France as if it were another country, calling it simply "the interior." Their local newspapers are in French and German and 35,000 Mulhouse residents - nearly 15 per cent of the population - cross the German border to go to work every day, in search of higher wages across the Rhine.

Few German workers come the other way, into France, though Mulhouse does boast a community of German companies.

The city practices Swiss-style environmental policies, with a recently launched programme to collect household waste in recyclable plastic bags. It holds regular joint municipal planning sessions with Freiburg, its

nearest German neighbour. It also boasts positively Teutonic labour relations stability, with one notable exception: the strike at the local Peugeot plant three years ago.

"Traditionally, we are an attractive centre for German companies who want to get into the French market, with all its special characteristics. We are also attractive to international companies who see this as a good base from which to serve northern Europe without having to set up in Germany," explains Mr Laurent Kammerer, head of the mayor's private office.

The city has a plentiful pool of labour though city officials do complain of a skills shortage. This is partly because of a fast-growing immigrant population of nearly 18 per cent, many of whom have been attracted by the local car industry. A rise in the National Front vote, to 33 per cent in Alsace generally in the last regional election, could be a worrying consequence. However, city officials attribute this more to regional dissatisfaction with the centralising Paris bureaucracy than to social tension.



The Post Courant at Strasbourg: the city, located 2.5 miles (4km) west of the Rhine on the Franco-German frontier, is the seat of the Council of Europe, the plenary sessions of the European Parliament and the European Court of Human Rights. Strasbourg is also an episcopal see, a university city and an international communications centre. In the recent French referendum on European political and monetary union, the citizens of Strasbourg had the biggest pro-Maastricht majority in France with a 72 per cent "yes" vote.

Cutbacks and job losses in third bad year for producers

## Champagne sales hit hard

ONE chilly March day this spring, the streets of Reims were packed with thousands of stony-faced workers, shouting angry slogans and brandishing placards, in protest against the cutbacks and job losses at the champagne houses where they work.

The mood of their employers was little different. The champagne industry is in the throes of its worst crisis since the oil shock of the mid-1970s. The champagne houses of Reims and Epernay, which flourished in the bullish mood of the 1980s, have been floundering in the chillier climate of the 1990s.

Champagne sales have been hit by everything from the global economic slowdown, to the strength of the franc against key export currencies and fiercer competition from other products, notably sparkling wines. The champagne houses, now in their third successive year of falling sales, are struggling for survival against a backdrop of mounting debts and frighteningly high stocks.

It is easy to paint a picture of the champagne sector as yet another industry that has fallen victim to the economic woes of the early 1990s. But even after the economy recovers, the champagne houses will still face the challenge of getting to grips with the longer term issues of the backlash against alcohol consumption and adjusting to life in the increasingly competitive international drinks industry.

The industry is dominated by LVMH, the giant luxury

goods group which owns a series of champagnes, including Moët et Chandon, Mercier, Pommery and Veuve Clicquot, as well as a string of cognacs, fashion houses, luxury luggage makers and perfumes. LVMH towers over the other champagne houses with sales of FF4.82bn last year alone.

Other leading players include Seagram and Remy Cointreau, which also have interests in other areas of the international drinks industry. These large groups have gobled up many of the independent houses over the years but three of the six biggest champagne companies are still in family hands. Marne et Cham-

pagne is majority-owned by the Burtin-Mora family as is Champagne Taittinger by its founding family. Laurent Perrier belongs to the Burtin-Mora family, with Banquet and Cordon Rouge de France as its other major shareholders.

These companies, like the rest of the industry, thrived in the 1980s. The market reached its peak in 1989 when 248m bottles of champagne were sold, compared with 188m five years before. But as sales rose, so did prices. The champagne producers had taken advantage of their buoyant market to hike the price of their product.

By 1990, when the recession really began to bite in the US and western Europe, champagne sales were hit not only by the fall in consumer purchasing power, but also by the backlash against high prices. It took time for the industry to get to grips with the pricing problem. When sales started to

fall, the producers' first response was to try to compensate for depressed demand by raising prices. Sales fell by 6.6 per cent to 232m bottles in 1990, according to the Comité Interprofessionnel du Vin de Champagne (CIVC), only to fall again, by 10 per cent to 214m bottles, in 1991. The worst affected area of the market was exports. The French market, still the biggest single source of champagne sales, slipped by 8.1 per cent to 135m bottles last year. But export sales fell further, by 11 per cent to 75m bottles.

Some export markets declined dramatically. The UK, which had become one of the industry's most buoyant markets in the 1980s, fell by 34 per cent and Australia, also reeling from recession, by 33 per cent. In the US, where sales fell by 13 per cent, champagne was affected both by the economic crunch and also by competition from Californian sparkling wines, which have made great strides in quality over recent years.

This year has been little better. Exports have fallen further, as have sales in France. The CIVC anticipates an overall reduction in sales of champagne to between 200m and 210m bottles by the end of the year. There have been reports in the French press of some small houses facing falls in sales of up to 70 per cent since the start of the year.

The problems posed by this decline in sales are aggravated by the deterioration in the industry's financial state. Stocks have risen as sales have

fallen. Many champagne houses are now crippled by serious cashflow problems because of the financial cost of carrying heavy stocks.

Since this spring the market has been flooded by "fire-sale" champagne as producers have desperately off-loaded their surplus stocks. Some houses have been selling champagne for as little as FF138 a bottle, well below the production cost of around FF155. They have chosen to swallow the losses, rather than face the financial blow of another increase in servicing costs on their stock.

The champagne houses have also been forced to cut costs. There have been lay-offs across the industry, even at the largest houses, triggering a spate of industrial action including strikes at Mumm and Piper-Heidsieck this spring.

However the industry has also taken tactical steps to try to improve its position by tightening up the specification for the composition and production of champagne in an attempt to reduce output. The quantity of grapes required to make champagne is being increased from 150 kilos a hectare to 160 kilos. Meanwhile the amount of grapes that the vineyards are allowed to harvest has been reduced from a maximum of 12,000 kilos a hectare to 10,400 kilos.

These measures should, so the CIVC hopes, ensure that champagne is produced in smaller quantities, but at higher quality, thereby enabling the producers to charge more for its new improved product when it comes on to the market in 1994 and, hopefully, alleviating the present pressure on prices.

After all, as Mr Jean-Michel Ducloux, president of the Champagne Houses' Union, said: "Champagne is about one thing - quality."

Alice Rawsthorn

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Châlons-sur-Marne, capital of the Champagne-Ardenne region

## New investment incentives

LIKE many other provincial towns across France, Châlons-sur-Marne has seized the opportunity offered by decentralisation of local government in recent years to initiate a wave of investment.

Châlons-sur-Marne, capital of the Champagne-Ardenne region, badly needs to invest to attract private sector industry to counterbalance its uncomfortably heavy dependence on public sector jobs.

Accordingly, Châlons-sur-Marne will early next year open a 56-hectare business park at Les Escarotières, just outside the town, which will offer a range of tax, social security and job creation incentives for arrivals.

Further ahead, there are plans for a FF400m to FF500m freight airport, due to be one of Europe's largest, on the site of a military airbase at nearby Châlons-Vatry.

The airport project is also, incidentally, an example of the surprisingly close co-operation between the Communist-run city and the conservative controlled Chamber of Commerce - "It is essential that we work together to provide the best tailored solutions for companies," says Mr Christian Bernard, the chamber's manager.

The region and the Marne departmental councils are also controlled by the right, but despite these political differences there is broad agreement with the city on local planning and economic development.

Châlons-sur-Marne is doing its utmost to play on its geographical advantages to attract businesses to the area. The town's great asset is to be positioned on the junction between France's main west-east motorway - half way from Calais to the German border - and the country's main southern motorway from Paris to Milan.

The southern route, the A26, follows the line of the ancient Via Agrippa, indicating that the town has a historic claim as a distribution centre. It is no accident that distribution companies fill eight pages of the local telephone book, including Harris Distribution, the UK group which opened a depot there last year.

A combination of historical accident and design means that 40 per cent of Châlons-

sur-Marne's workforce is employed by the state. Big local state employers include France Télécom, the post office, the SNCF rail board and the regional and Marne departmental offices.

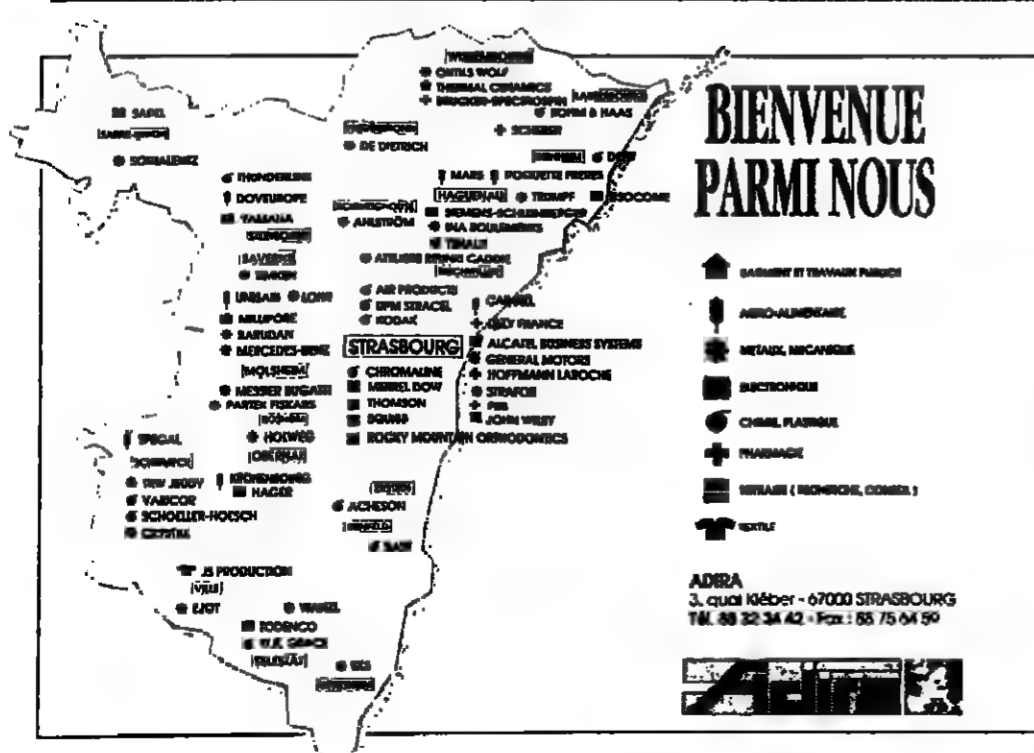
"We are a town of civil servants, which means we are relatively prosperous, but have a weak industrial base," explains Mr Pierre-Yves Danion, economic adviser to the Communist mayor, Mr Jean Reysier.

This has cushioned Châlons-sur-Marne from the decline of traditional industries which have badly hit neighbouring areas like the Vosges, so that it has an unemployment rate of 9 per cent, well below the national average.

Yet it is only too conscious that this cushion could deflate at a time when central government is looking for new ways to control its budget deficit. As a result, the town hall is badly short of business tax, a locally levied payroll and turnover charge which forms an important part of its funding. This, argues Mr Danion, is another example of how central government has shifted more responsibility to local authorities without giving them the full means to exercise their new role.

William Dawkins

IF EUROPE IS YOUR MARKET, BAS-RHINE CONCERNS YOU



**INSIDE**

**Western & Pacific delisted after inquiry**

A company closely associated with natural resources entrepreneur Mr Clive Smith has left the Vancouver Stock Exchange following inquiries from officials over transactions involving its shares in the UK. Authorities in Vancouver suspended trading in the company, Western & Pacific, in October, pending clarification of the pledge of Western shares as security to a UK company. Page 16

**Schools had its chips**



Teaching today is labour-intensive. Hundreds of thousands of teachers stand in classrooms lecturing students. With the latest computer technology, a single talented teacher can prepare and deliver a course to an unlimited number of students. As the cost of electronic gadgetry falls, the savings from eliminating classroom teachers and the physical infrastructure of schools are potentially huge. Back Page

**Westpac loses to NAB**

In Melbourne, Mr Don Argue, managing director of National Australia Bank (NAB), outlined the reasons for his bank's growing success. In Sydney, Mr Frank Conroy, chief executive of Westpac Banking Corporation, toughened out questions on Westpac's failures. As Mr Conroy was forced to admit, Westpac is the big loser. Only a few years ago it was the country's biggest and most profitable bank. Page 17

**Gifts worry about UK recovery**

Gifts edged down last week amid funding worries and signs that the UK economy may be flickering into life. Short-dated gilts turned down partly because of the perception that further cuts in UK taxes are unlikely by the end of the year, while longer-dated securities fell on inflation worries and concern about funding. Page 20

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**Rhone-Poulenc hit by currency shift**

By Anita Haworth in Paris

RHONE-Poulenc, the French chemicals group, yesterday reported a fall in net income only days before it is due to announce details of the sale of 10.6 per cent of the government's stake in the company. Rhone-Poulenc's forthcoming share sale will raise between FF30bn (\$550m) and FF40bn. It will be a watershed in French industrial policy because

it would be the first time that France's socialist government allowed its holding in a state-controlled company to fall below 50 per cent. The group, the flagship of the French chemicals sector, suffered a modest 2.5 per cent fall in net income to FF1.58bn from FF1.63bn in the first nine months of 1991. The group has managed to increase operating income by 23.5 per cent to FF5.65bn from

FF4.57bn on sales which rose by 0.7 per cent to FF62.48bn from FF61.95bn. Net income was hit by exchange rate fluctuations, although net income per share increased by 6.6 per cent from FF17.57 to FF18.73. The chief currency problem for Rhone-Poulenc was the US dollar's decline against the French franc. Most of the group's recent earnings growth has been in the

US, reflecting the switch in strategy away from its old bulk chemicals interests towards more profitable health-care businesses under the chairmanship of Mr Jean-René Fourtout. After the share sale, the state's direct voting rights will be reduced from 77.5 per cent to 45 per cent. However the government will still exercise indirect control through the stakes owned by other state-controlled institutions

including the Crédit Lyonnais bank and Assurances Générales de France insurance group. The partial privatisation has been interpreted by some observers as a stepping stone towards full privatisation of Rhone-Poulenc. The chances of this will rise if France's right wing opposition, which appointed Mr Fourtout as chairman six years ago, returns to power after next spring's general elections.

**The property developer is shrinking almost to insignificance, writes Bernard Simon**

**SBC sets deadline for payment of debt**

By Bernard Simon in Toronto

OLYMPIA & YORK's efforts to keep its US operations out of bankruptcy protection are again being threatened by disgruntled creditors. Swiss Bank Corporation has extended until tonight a deadline for O&Y to pay US\$8m which it owes under a letter of credit related to one of its New York properties. The bank had earlier set a deadline of 1pm last Friday. In a separate action, Battery Park Holdings (BPH), which is partly owned by Toronto's Brown family, has filed a suit to recover US\$8.5m in overdue debt-service payments from the World Financial Centre, O&Y's flagship development in lower Manhattan. BPH is also claiming US\$75m in capital which it alleges was improperly withdrawn by O&Y from the World Financial Centre to support less healthy operations elsewhere within its empire.

Some traditions at Olympia & York's elegant head office on the 28th floor of Toronto's Exchange Tower have been maintained since the world's biggest property developer filed for bankruptcy protection seven months ago. A small kitchen still prepares lunch for Paul and Albert Reichmann, O&Y's founders, and a waitress still delivers the meal to their offices on a silver tray. But much else has changed. O&Y, known in its heyday as an aggressive, family-run developer always on the lookout for the next pioneering deal, is rapidly shrinking to an inconspicuous property manager controlled by penny-pinching creditors. Creditors' influence is pervasive, from the waiter of information which has been prised out of the once-secretive Reichmanns, to the absence of the fresh flowers which used to adorn the receptionist's desk at head office. The full extent of creditors' power became clear last week when O&Y agreed to what amounts to an orderly liquidation of some of its most prized assets. Responding to a groundswell of protest against its latest debt-restructuring plan, the company asked creditors to postpone a series of meetings due to start on November 25. Thirty-four creditor groups with claims totalling C\$8.6bn (US\$7bn) were due to vote on the restructuring proposals at the meetings. But it was clear by early last week that several key groups, notably those with well-secured claims against specific O&Y buildings, would reject the plan outright. The creditors agreed to put off the meetings until mid-January, but only on condition that if they then turn down any revised proposals O&Y comes up with, they will be free to seize their collateral. Some groups of lenders have already begun interviewing new managers to take over the maintenance and letting of buildings from O&Y. Among those likely to be seized in coming months are

**Creditors shake Olympia & York to its foundations**

**Reichmanns' shrinking empire**

Disposals since February 1991	Location	Status
Category 1000	London	Turned over to administrators
55 West Street	New York	Transferring title to condominium
320 Park Avenue	New York	Sold
Verde-Buena	San Francisco	Withdrawn
Aelia Centre	Toronto	Transferring title to lender
5th Avenue Place	Calgary	Transferring title to lenders
Alfred Lyons	Calgary	Price: C\$395 million
Imperial Provincial Place	Calgary	Price: C\$301 million
Tydon Financial	Calgary	Price: C\$195 million
Santa Fe Pacific	Calgary	Price: US\$360 million



the 72-storey First Canadian Place in the heart of Toronto's financial district, and the nearby Scotiabank Plaza. Under the next restructuring plan, to be filed by December 15, the Reichmanns are expected to cede control of the company's equity to its unsecured and under-secured creditors. These creditors' hopes of getting their money back rest on an upturn in the North American commercial property market, especially in New York and Toronto, and an improvement in the fortunes of O&Y's key non-property investments, newspaper maker Abitibi-Price and Gulf Canada Resources.

The past seven months have been humiliating for the Reichmanns. They have lost the bulk of their fortune and their reputation as far-sighted businessmen has taken a battering. O&Y in its heyday had an image of a prudently-managed company whose owners combined vision and flair, and made a point of keeping their promises. But the light shone on O&Y since May has revealed something different: a disorganised tangle of companies with a highly centralised management. As a result, creditors' attitudes towards the Reichmanns have hardened. Much effort over the past seven months has gone into tracking down the family's assets and making sure that they pay as much as possible towards the costs of keeping O&Y afloat. As one creditor's lawyer put it a few months ago: "We don't want their houses, but we want just about everything else." The disillusionment of O&Y's lenders has also cast a pall over the rest of the North American property finance market. Investors now insist on tighter protection in loan covenants, such as channelling rents to a trustee who would be responsible for debt-service payments. The Reichmanns' worth now consists largely of a 20 per cent equity stake in their debt-burdened US properties, some smallish privately-held Canadian buildings and their original Toronto floor-coverings business. Paul and Albert Reichmann still come into the office on most days. Mr David Brown, O&Y's chief legal adviser, says: "We're bouncing ideas off them all the time, almost on a daily basis." O&Y is now run however, by Mr Gerald Greenwald, the former Chrysler vice-chairman hired last April as president. Mr Steve Miller, another ex-Chrysler man who is now a partner at the New York investment bank James D Wolfensohn, spearheads the restructuring negotiations. O&Y's executives and advisers may bounce ideas off the Reichmanns. But the orders these days come from the creditors.

**GPA to ask banks to change covenants**

By Roland Rudd in London

GPA Group, the aircraft leasing company, will today ask more than 100 banks to change the covenants in its borrowing agreements so that they are cash-flow related instead of being linked to equity and profits.

The request is part of the group's financial reorganisation, which also includes a request to its banks to defer repayment of up to \$900m (£596m) of bank debt until September 1994.

GPA's bank creditors, who meet today at the InterContinental Hotel in London, will hear that Mr Maurice Foley, deputy chairman, has put off his retirement for a second time, to become GPA's project co-ordinator.

Bank creditors - whose loans are fully secured on aircraft - may be relieved that they are being asked to make relatively modest concessions in the restructuring.

However, holders of GPA's \$1.5bn (£900m) unsecured debt, mostly in the form of bonds and medium-term notes, are not expected to be asked to make any substantial sacrifices in the restructuring.

One banker said he thought it would be fair if both the banks and the unsecured creditors made sacrifices. However Mr Foley said: "It is important that we honour our commitment to them [the unsecured creditors] since we may wish to tap the capital markets next year."

GPA expects to breach borrowing covenants because of the deterioration in its trading performance and the company's failure earlier this year to raise \$800m in its aborted flotation. It therefore wants the covenants in its borrowing agreements to be based on cash flow. GPA reported \$285m net cash flow from leases - after the deduction of interest - in the year to March 1992.

A number of GPA's bankers, contacted by the Financial Times, said they recognised they would have to take the first step in restructuring the group. However, some bankers are concerned about how GPA intends to deal with its obligation to make a \$1.5bn repayment in September 1994.

GPA said agreement with banks is partly dependent on agreement with manufacturers to postpone deliveries of up to 300 aircraft due in the next two years.

**From crisis management to the next Budget**

does not distort the workings of market forces or discriminate against specific groups. Over the past two years, he has also shown himself to be a keen fiscal innovator. He decided that the spring Budget, which is concerned with revenue raising, and the Autumn Statement, covering government spending, should be merged into a unified annual budget from December 1993. Although fraught with

**Economics Notebook**  
By Peter Norman

administrative difficulties, this move brings Britain's budget practice into line with that of other countries and should make the UK's public finances more transparent to the voter. Mr Lamont also reformed the annual public expenditure round this year. By introducing a new "control total" for government expenditure, which could not be breached in the negotiations on spending between the Treasury and the spending departments, he imposed a tougher discipline on the spending round and probably helped ministers to channel spending more effectively to priority areas. But the chancellor's record on reforming taxes has been patchy. "The past two years have seen tax policy appearing to be determined by pressure from interest groups rather than Lawsonian principles of tax neutrality," says Mr Andrew Dilnot, director of the Institute for Fiscal Studies.

ends paid to shareholders. Not all companies can fully offset these payments to the Inland Revenue against their UK corporation tax liability. The interaction of the income tax and national insurance contributions is another area where reform would be desirable. The co-existence of the two systems means that someone earning, say, £27,000 a year pays a lower marginal tax and average tax rate than someone earning £20,000. Anomalies also arise in the treatment of savings and from the relatively narrow range of products on which value added tax is levied. But manifesto commitments and election promises have ruled out many moves such as broadening the VAT base to items such as food or children's clothing. A more pressing problem facing Mr Lamont is lack of cash. The Autumn Statement suggests that the public sector borrowing requirement could reach £44bn in 1993-94. Many independent forecasters are more pessimistic. Certainly, no one should put too much faith in the medium-term assumptions for the UK economy which are tucked away in the footnotes of the Autumn Statement. The figures, implying that Britain could grow by a real 3.5 per cent in 1994-95 and 3.5 per cent in 1995-96, are not based on an up-to-date judgment of economic conditions. They are projections taken from the Budget "red book" of last March and adjusted for changed inflation expectations following sterling's float. Tax reform is best carried out when the state is flush with funds and able to compensate the losers from any change. Mr Lamont will not be in that position next March. Indeed, his first Budget after the election will more likely be a test of whether the chancellor's tax reforming instincts can overcome his need to raise revenue.

**NatWest Bancorp sees record profits**

By John Gapper, Banking Correspondent

NATWEST BANCORP, the US subsidiary of National Westminster Bank, is likely to make a profit after tax of more than \$130m this year, according to Mr John Tugwell, chairman of the US business. That would be the US business's highest-ever yearly profit after tax.

Mr Tugwell also dismissed widespread expectations that NatWest may soon sell its US subsidiary.

He said that National Westminster Bank was unlikely to sell NatWest Bancorp in the short-term, and would instead build it through selected acquisitions.

"Now we are making more money than in the UK, why would you sell your profit jewel?"

Mr Tugwell said NatWest Bancorp, which has been recovering after two years of substantial losses due to bad debts in 1989 and 1990, was likely to outstrip the net profits of \$130m made in its most profitable year of 1987. Between 1989 and 1991, it incurred cumulative losses of \$890m.

Mr Tugwell said a decision on whether to sell or remain in the US market was likely only when NatWest Bancorp had been expanded.

The bank made a total net profit of \$105.5m in the first three quarters of this year, including \$39.4m in the third quarter. Its assets have been expanding gradually as it has made a series of small acquisitions, and they now stand at \$22.5bn.



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## COMPANIES AND FINANCE

Vancouver quotation ended after inquiries into UK share pledge

## Western &amp; Pacific delisting

By Peggy Hollinger

A COMPANY closely associated with natural resources entrepreneur Mr Clive Smith has left the Vancouver Stock Exchange following inquiries from officials over transactions involving its shares in the UK.

Authorities in Vancouver suspended trading in the company, Western & Pacific, in October, pending clarification of the pledge of Western shares as security to a UK company.

They were concerned following articles in the British media stating that a substantial shareholder in

Western had pledged the shares following a loan transaction involving a cooking manufacturer, Belling, which went into receivership in May.

The stock was security for a \$2m advance fee payment made by Belling last year, in return for a promised loan of \$50m from a third party, Global Prospect Funding, a New-castle-under-Lyme company.

The \$50m loan was never made, and the Western shares were eventually given as collateral for the \$2m in April. Soon after they were pledged,

the value of the shares fell from an estimated \$1.75m to about \$200,000.

The shareholder was Finchley Investments, an Isle of Man company administered from Jersey, which Mr Smith has often used to handle some of his investments. Western & Pacific is also 18.8 per cent owned by Newsham Investment, another vehicle for the Smith family interests.

The Vancouver authorities also questioned the company as to the extent of Mr Smith's involvement with Western & Pacific.

After several meetings

towards the end of October, Western & Pacific eventually decided to delist from the VSE. It retains its listing on NASDAQ in the US, where most of its shares are traded.

Western & Pacific came to the VSE in 1991 through the reverse takeover of a shell company Nor-West. Some months later Western purchased Montana Mining Properties, one of the founders of Butte Mining. Cash-strapped Butte has launched litigation alleging fraud and misrepresentation by more than 70 defendants, including Mr Smith, who is contesting the action.

## Waste Management in £29m French deal

By Richard Gourlay

WASTE MANAGEMENT International, has bought 75 per cent of Environnement Service SA, for FF£ 235m (£28.73m).

Environnement Service provides solid waste collection and disposal and industrial cleaning services, and is a subsidiary of Derichebourg Holdings.

It is involved in commercial collection throughout Paris, commercial collection elsewhere in France and has recently received a landfill permit near Nice.

Derichebourg says sales at Environnement Service in the nine months to September were FF£ 325m (£39.73m).

Mr Edwin Falkman, WMI's chief executive, said Environnement Service would allow rapid expansion of the group's presence throughout France.

WMI is 80 per cent owned by Waste Management of Chicago.

## Murray Johnstone wins two contracts

Murray Johnstone, the fund management group, has won two substantial North American management contracts, one a \$12.8m ethical fund and the other a \$28m international bond fund.

The ethical fund, Global Equity Fund, is the first worldwide ethical fund to be offered to US investors and will avoid investment in companies involved in nuclear power, alcohol/tobacco, weapons systems and South Africa.

Murray Johnstone was awarded the management contract by Calvert Group, the US mutual fund group which specialises in ethical, or "social screening" investment.

Investors Global Bond Fund, for Canadian investors, is an open-ended mutual fund concentrating on a high yielding yield via investment in AA-rated Government and company bonds.

Murray Johnstone group controls funds totalling \$3.7bn, including \$636m for North American clients.

## Disposals substantially erode Ldn &amp; Metropolitan losses

By Vanessa Houlder, Property Correspondent

LONDON & Metropolitan, a troubled property company, has reduced its pre-tax losses from £14.98m to £4.44m for the six months to June 30.

L&M, which reported pre-tax losses of £10.3m in 1990 and £26m in 1991, underwent a financial restructuring in March 1991. This summer its banks extended their loans and working capital facilities until June 1993.

Its latest accounts, which

revealed a negative net worth of £44m, were qualified by its auditors, Touche Ross. They were prepared on a going concern basis which was dependent on the group's ability to meet working capital projections in the UK and to secure a refinancing of leisure development in the South of France.

In the half year there was an operating profit of £2.35m, compared with a loss of £10.5m. The company said the improvement will not be representative of the full year, since it does not anticipate any

large disposals.

The results benefited from the completion of the sale of part of a site in Raigate to Safeway. The company also sold three office buildings in Manchester to an Enterprise Zone Investment Trust for £4.1m and a 51,000 sq ft Chancery Chambers city centre office site to an overseas investor.

Further, unspecified provisions were made against the carrying value of other properties in the portfolio.

Losses per share fell from 26p to 6.5p.

## Your Price changes hands

By Paul Chivers, Midlands Correspondent

FOSTER Menswear, owned by its management after a £1 buy-out from Sears last September, has given Your Price, its last-making chain of discount clothing stores, to Mr David Tucker, chairman of Be Wise, another discount retail chain.

"I didn't pay anything for it. I got given it," said Mr Tucker as he explained that the 85 stores of Your Price would be run as an independent company. He set up a new com-

pany, funded by himself with £100,000 of equity, to take over Your Price.

Mr Tucker is buying from Sears, for £2.2m, the freehold of 20 Your Price stores. Ownership of the remainder is in the hands of institutional landlords. But the Your Price leases on the stores have been assigned to Mr Tucker's new company at a reverse premium - that is, Foster paid Mr Tucker to take them.

Mr David Carter-Johnson, managing director of Foster said: "In six weeks we have successfully sold on the only

fringe business we have." Your Price stores, with turnover of £18m, are generally half the size of the 250 Foster clothing stores, which collectively produce yearly sales of £100m.

Passing Your Price on to Mr Tucker means that Foster has cut off a loss-maker. "The major basis of the mbo is cost reduction," said Mr Carter-Johnson.

The combined Foster-Your Price business cost Sears £30m in two and a half years. But Mr Carter-Johnson said the mbo company should make a small profit in its first year.

## NEWS DIGEST

## Interest in National Express

THERE HAS been considerable public interest in the flotation of National Express, the scheduled coach service operator, which is expected to price its shares tomorrow at between 160p-170p, valuing the group at about £80m, writes Andrew Boiger.

More than 7,000 people have called a freephone line to register for a mini-prospectus for the flotation, many more than the company's advisers had expected. The flotation will be through a placing and offer for sale, with 26 per cent of the shares being offered direct to the public.

## Clyde Blowers £141,000 in red

After reorganisation costs of £151,000, Clyde Blowers ran into a pre-tax loss of £141,000 in the year ended August 31 1992, against a profit of £254,000.

Although turnover rose to £4.65m (£4.54m) then, it was swayed from an operating profit of £93,000 to a deficit of £253,000. However, increased investment income of £283,500 (£161,000) cut that to £10,000, before the reorganisation costs.

The overall result was "very much as anticipated" consider-

ing the scale of the reorganisation, said the directors.

The year past had been, and the current term would continue to be, a period of significant change for the company.

Losses per share worked through at 4.76p (earnings 18p). However, the dividend is held at 7.5p, the final being 7.07p, payable January 13.

## Downturn at F&amp;C German Inv

Foreign & Colonial German Investment Trust reported net asset value lower at 105.2p on September 30, against 110.5p at March 31 and 107.1p a year earlier.

Mr David Thomson, chairman, said that although Germany performed better than other European bourses the performance was disappointing. However most of the falls were offset by sterling's decline against the D-mark.

Net revenue for the six months to the end of September was £320,000 (£280,000) for earnings per share of 0.81p (0.89p).

## F&amp;C Eurotrust improvement

At September 30 1992, net asset value of Foreign & Colonial Eurotrust was 181.5p, a rise of 1.7 per cent over the 158.8p of a year earlier.

Total revenue for the year increased from £2.64m to

£3.53m, and net revenue came to £865,000 (£826,000). That equaled earnings per share of 1.47p (1.61p) and the dividend is stepped up to 1.25p (1.18p), payable on December 23.

## McInerney losses reduced to £1.2m

McInerney Properties, which builds private houses in Ireland and leisure related activities in Spain and Portugal, cut its pre-tax loss from £2.46m to £1.2m, or 21.3m, over the first half of 1992.

The second half will show some loss. Expectation of more stable markets in 1993 should enable the group to reap the benefits of the recent financial restructuring and hasten the return to profitability, which should come in 1994.

Exceptional charges of £300,000 were made this time. Provisions covered possible increased future costs which might arise from recent currency movements, and costs relating to the financial restructuring.

Turnover in the half year came to £125m (£124m), while losses per share declined to 2.13p (3.93p).

## Restructuring on the cards at John Foster

John Foster & Son, the mohair and worsted spinner, reports a substantially increased loss for the first half, sees further

losses in the second, and is making management changes.

On the news on Friday the share price fell 9p to 82p.

Mr Barry Spencer, who joined the board in September, is to become chairman with immediate effect in place of Mr Victor Watson, who remains a non-executive director, and Mr Peter Giles has become a director and chief executive.

Mr Spencer was formerly chairman at Parkland Textile and Mr Giles has considerable experience in turn-around situations. They will undertake a review of all operations which will lead to a significant restructuring.

In the half year ended August 28 1992 turnover came to £10m (£10.4m) and the operating deficit to £1.7m (£1.04m). Profit on sale of land was only £66,000 (£1.02m) and there were restructuring costs of a subsidiary of £249,000 (nil), pushing the pre-tax loss up from £23,000 to £1.9m.

Losses per share rose to 16.5p (0.2p).

## Boscombe Property half time surge

With gross rental income rising 9 per cent to £434,000, Boscombe Property lifted pre-tax profit from £183,000 to £275,000 for the six months ended September 30 1992.

Earnings per share surged from 134.89p to 203.09p, and the interim dividend is increased from 80p to 100p.

## DERIVATIVES

The FT proposes to publish this survey on December 8 1992.

This survey will provide a review of current products and technologies, along with analyses of credit and legal issues, and a sophisticated investor's guide to products and terminology.

For advertisement rates and deadlines, call

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## FT SURVEYS

## First Union Corporation U.S. \$150,000,000 Floating Rate Notes due 1996

The rate of interest per annum on First Union Corporation's U.S. \$150,000,000 Floating Rate Notes due 1996 for the interest period beginning 20th November, 1992, and ending 22nd February, 1993, the next interest payment date, will be 4.0625%. The amount of interest payable for such interest period on each \$100,000 principal amount of the Notes will be \$106.08.

For and on behalf of the issuer  
Banque Paribas Luxembourg  
Société Anonyme

## NOTICE TO THE HOLDERS OF IFL 75,000,000,000 Banque Paribas (the "Bank") 5% Variable Redemption Notes due 1993

In accordance with Conditions 6(b) and 11 of the Terms and Conditions notice is hereby given that the Notes have been purchased by the Bank and that the issue will no longer be listed on the Luxembourg Stock Exchange.

For and on behalf of the issuer  
Banque Paribas Luxembourg  
Société Anonyme

## CONTRACTS &amp; TENDERS

## PUBLIC NOTICE OF TENDER

The Government of the Republic of Lithuania

offers for sale by open tender

Klaipeda State Tobacco Company

55% of equity offered for sale in the privatisation of the Lithuanian tobacco industry.

Tender period begins November 27, 1992. For further information about the tender process or the investment opportunity, or to obtain tender applications, please contact

Todd Thomson or Joseph Sedlitz at:

KPMG Peat Marwick

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The contents of this statement have been approved for the purposes of Section 37 of the Financial Services Act 1986 by KPMG Peat Marwick, which is authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

## BusinessWeek International

This week's topics:

Asia's Tech Quest: Special Report

How Kicking Around Trade Pays Off

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## NOTICE TO BONDHOLDERS

## Lavoro Bank Overseas N.V.

U.S. \$150,000,000

10% Guaranteed Bonds due 1995

In accordance with Condition 7(c) of the Terms and Conditions of the above issue and in compliance with the provisions of the Fiscal Agency Agreement, notice is hereby given that all the outstanding Bonds will be redeemed on December 15, 1992.

Payment of the principal amount of the Bonds will be made upon presentation of the Bonds with Coupon No. 5 and following attached, at the offices of the Fiscal Agent or any of the following Paying Agents:

Fiscal and Principal Paying Agent  
Banque Paribas Luxembourg  
10A Boulevard Royal  
L-2003 Luxembourg

Payable Agents  
Banque Paribas  
3 rue d'Antin  
F-75002 Paris

Morgan Guaranty Trust Company of New York  
60 Victoria Embankment  
GB-London EC4Y 0DP

Swiss Bank Corporation  
1 Amstelveenseind  
CH-4002 Basle

Luxembourg, November 23, 1992

## REPUBLIC OF ICELAND

## U.S. \$100,000,000 Floating Rate Notes Due 1994

Notice is hereby given that the rate of interest has been fixed at 4.025% and that the interest payable on the relevant interest payment date, May 24, 1993 against Coupon No. 8 in respect of US\$10,000 nominal of the notes will be US\$203.49.

November 23, 1992, London

By Citibank, N.A. (Issuer Services), Agent Bank CITIBANK

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## Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Shareholders will be held at the registered office of the company on 11th December 1992 at 2.30 p.m. with the following agenda:

## Agenda

1. Submission of the management report of the Board of the Directors and of the report of the Authorized Independent Auditor.
2. Approval of the annual accounts and appropriation of the results as at 30th September 1992.
3. Discharge to be granted to the Directors for the proper performance of their duties for the period ended 30th September 1992.
4. Receipt of and action on nomination for election of the Directors for a new statutory term of one year.
5. Election of two additional Directors.
6. Any other business.

The shareholders are advised that no quorum is required for the items of the agenda and that the decisions will be taken at the simple majority of the shares present or represented at the Meeting. Each share is entitled to one vote. A shareholder may act at any Meeting by proxy.

By order of the Board of Directors

## NOTICE TO THE HOLDERS OF

## ITL 42,000,000,000

## Banque Paribas (the "Bank")

6% Variable Redemption Notes due 1993

In accordance with Conditions 6(b) and 11 of the Terms and Conditions notice is hereby given that the Notes have been purchased by the Bank and that the issue will no longer be listed on the Luxembourg Stock Exchange.

For and on behalf of the issuer  
Banque Paribas Luxembourg  
Société Anonyme

## NOTICE TO THE HOLDERS OF

## Banque Indosuez

U.S. \$125,000,000

Floating Rate Notes due 1997

For the six months 20th November, 1992 to 20th May, 1993 the Notes will carry an interest rate of 4.1875% per annum and coupon amount of U.S. \$210.54 per U.S. \$100,000 Note.

Based on the Luxembourg Stock Exchange

For and on behalf of the issuer  
Banque Paribas Luxembourg  
Société Anonyme

Bankers Trust Company, London, Agent Bank

To The Holders of

Banco Central de Costa Rica

US \$95,611,115 Series A Interest Claims Bonds Due May 21, 2005

US \$78,435,529 Series B Interest Claims Bonds Due May 21, 2006

NOTICE IS HEREBY GIVEN that the rate of interest from November 23, 1992 through and including February 21, 1993 is 4.7500% per annum. Interest coupon payable on February 22, 1993 will amount to \$500.25 per \$100,000 nominal face amount.

By: BankAmerica Trust Company of New York as Fiscal Agent

Dated: November 23, 1992

By: Citibank, N.A. (Issuer Services), Agent Bank CITIBANK

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## Notice to Lombard Depositors

The following interest rates will apply from 23/11/92

## 14 DAYS NOTICE

When the balance is less than £5,000

When the balance is £5,000 and above

## CHEQUE SAVINGS ACCOUNTS

## COMPANIES AND FINANCE

## Mercedes excess stocks total 35,000

By Kevin Done,  
Motor Industry Correspondent

MERCEDES-Benz, the automotive subsidiary of Daimler-Benz, has excess stocks of around 35,000 cars worldwide, according to Mr Gerhard Liener, Daimler-Benz finance director.

Mercedes is holding stocks of around 150,000 cars worldwide in its own inventories and at its dealers, said Mr Liener, compared with a normal level of around 95,000. "Our sales are going down, our stocks are too high and therefore we are cutting production."

The German car and commercial vehicle maker is being forced to close its domestic

plants from December 21 to January 8 with the elimination of 10 production days in order to reduce output.

Last week it stopped production at its German commercial vehicle plants with the loss of four production days, in addition to a public holiday.

Extensive short-time working has been agreed for the commercial vehicle plants for the first half of 1993, and negotiations have started for short-time working at the Mercedes car plants in the first quarter of 1993.

A total of 33 production days are to be eliminated at the main van and truck plants at Düsseldorf and Würth in the first six months of next year,

while 19 production days will be cut at the Mannheim bus plant.

Mercedes car workers are taking the extended Christmas break in lieu of part of the summer holiday, so that the company can speed up output of the new generation Mercedes-Benz 190 executive car range, when it is launched next June, Mr Liener said.

By the end of this year, the Mercedes workforce would have been reduced by 12,500, he said, and a further 15,000 job cuts were planned in the next two years - a total reduction of around 10 per cent.

Mr Liener said that the company had suffered a "dramatic" fall in commercial vehicle

orders booked in Germany since July of between 30 and 50 per cent.

He said that Mercedes car production was expected to fall by 7 per cent this year to 538,000, from 577,990 in 1991. He forecast a further decline next year to 520,000-530,000.

Mercedes' commercial vehicle production worldwide would fall to 290,000 this year from 328,000 in 1991, and it was expected to fall to 270,000 next year, he said.

Mr Liener said a "fierce battle" for market share was being fought in some European truck markets, particularly in France. "This is a price war and the fiercest war is in France," he said.

## Tortoise catches up with the hares

NAB has emerged as Australia's strongest bank, writes Kevin Brown

IT WAS all in the body language. In Melbourne, Mr Don Argus, managing director of National Australia Bank (NAB), was relaxed and chatty as he outlined the reasons for his bank's growing success.

A few hundred kilometres away in Sydney, Mr Frank Conroy, chief executive of Westpac Banking Corporation, was determined but tense as he toughed out questions on Westpac's failures.

The two men had just announced sharply contrasting results for the year to end-September, confirming the dramatic upheaval in Australian banking as a result of the fallout from economic recession and the loose lending practices of the 1980s.

As Mr Conroy was forced to admit, Westpac is the big loser. Only a few years ago it was the country's biggest and most profitable bank. Boasting the slogan "Australia's World Bank", it set out to fight the big banks of Europe, North America and Japan on their own ground.

Now Westpac is pulling in its horns, and Mr Conroy openly admits that the bank would be vulnerable to takeover but for federal government regulations preventing mergers between the top six financial institutions. Even that defence will disappear if the opposition conservatives win the election which must be held by June.

If the rules do change, the most likely bidder is NAB, though Mr Argus is playing down the prospect. He said last week that NAB was too busy digesting its recent A\$1.1bn (US\$750.85m) takeover of the Bank of New Zealand.

However, NAB is known to have looked at both Westpac and the almost equally weakened Australia and New Zealand Banking Corporation (ANZ) as possible targets.

Most bankers and banking

AUSTRALIA'S LEADING BANKS Year ending September 1992			
	NAB	Westpac	ANZ
Assets (A\$bn)	116.4*	110.9	101.1
Net profit after abnormal (A\$bn)	876	(1,662)	(579)
Gross non-performing loans (A\$bn)	4.5	7.8	6.4
Specific provisions (A\$bn)	1.2	2.6	2.4
Net non-performing loans as % of risk weighted assets	4.1	5.3	3.75
Capital adequacy ratio %	11.6	9.7	9.7**

\*Includes BNZ. \*\*Includes second tranche of rights issue (due March 1993)

Notes: Figures in brackets. Sources: company figures

analysts think some rationalisation is inevitable. Even Mr Conroy says the four trading banks are likely to be reduced to three, though he thinks ANZ is the more likely target. The Commonwealth, the fourth trading bank, is still in majority government ownership.

The irony is that five years ago, NAB looked likely to be left behind by its more aggressive rivals. Under the conservative guidance of Mr Argus, then credit manager, and Mr Will Bailey, chief executive, the bank largely eschewed the rush into high-risk corporate lending which fuelled Australia's late 1980s boom.

Mr Argus and Mr Bailey were suspicious of the large-scale treasury activities which dominated the other banks, preferring to stick to small loans, especially in the housing sector. They did not get everything right, however; NAB was exposed to several high-profile corporate casualties, including Mr John Spalvins' Adsteam group, Mr Alan Bond's Bond Corporation Holdings, and Mr John Elliott's Harlin Holdings, formed to take a large stake in Foster's Brewing.

But NAB has been able to extricate itself with less damage to its balance sheet than the other banks, largely because it has stuck to a policy of loaning against cash flow

rather than against commercial property assets.

This policy looked cautious five years ago, but it has paid dividends since the property market began to crash in 1989. "We are not a property bank," says Mr Argus with almost palpable relief. "We are not interested. We never have been."

Ironically, NAB's largest single write-down, taken in this year's second half, was A\$126m against its 5 per cent shareholding in ANZ.

NAB reaped the benefit of its conservative strategy this year, when it reported a net profit after abnormal of A\$676m, maintaining its consistently profitable record. The bank was able to increase interest income and cut bad debt provisions in Australia in spite of slow economic growth, and would have reported substantially higher profits but for recession-related bad debt charges in the UK and Ireland.

NAB's result was in sharp contrast to ANZ, where Mr Don Mercer, the Scottish-born chief executive who took over recently from Mr Will Bailey, was reduced to drawing attention to his account as an indication that he was unlikely to squander shareholders' money. ANZ reported a net loss of A\$579m after writing off A\$1.9bn against bad and doubtful debts, and analysts say the bank faces a long, hard slog back to profitability.

"I guess you could say we perched long into the night [in the 1980s]" says Mr Mercer. "What you are seeing today is a bank with a bad hangover. Some of the guests perched so hard that they didn't survive, but those who did survive have a thumping headache."

The bank with the sorest head is undoubtedly Westpac, which has had a truly awful year. Westpac lost a net A\$1.66bn after writing off A\$2.66bn against bad debts in an attempt to draw a line under several years of poor performance. The loss followed the resignation of five directors, including Sir Eric Neal, the former chairman, who was replaced by Mr John Uhrig, the no-nonsense chairman of CRA, the Australian mining group.

Mr Uhrig and Mr Frank Conroy, who replaced Mr Stuart Fowler as managing director earlier this year, have launched an attack on the expense-to-income ratio, and formally reversed the bank's growth strategy by promising to reduce assets by A\$1.0bn over three years.

Both Westpac and ANZ went to great lengths to persuade the market that the worst is over, and both offered evidence to support their case. Westpac, for example, was able to announce a net profit of A\$104m for the second half, together with a small reduction in gross non-performing loans.

At the very least, the healthy capital adequacy ratios of all three banks indicate that Mr Bernie Fraser, governor of the Reserve Bank of Australia, was right to reassure US investors recently that none of the banks is in any danger of collapse. However, both Westpac and ANZ say that NAB is using its financial strength to increase its market share, suggesting that 1980s tortoise is now firmly among the hares.

## Kepco to allow foreign shareholders

By John Burton in Seoul

KOREA Electric Power (Kepco), the largest capitalised company on the Seoul bourse, yesterday lifted its ban on foreign shareholders.

Overseas investors will be able to acquire up to 8 per cent of Kepco shares from tomorrow, with individual investors limited to a 1 per cent holding.

The shares have risen by 140 per cent since August in anticipation of foreign investment.

The government, which owns 79 per cent of Kepco, decided three months ago to open Korea's electricity monopoly to foreign investment in an attempt to revive the flagging Seoul stock market. Kepco's size - it accounts for 12.5 per cent of Seoul's market capitalisation - and its sharp share price rise has pulled up the rest of the bourse.

The foreign investment ceiling of 8 per cent of Kepco represents 38 per cent of the Kepco shares traded on the Seoul bourse.

The government sold 21 per cent of Kepco to the public through a share issue in 1989. Kepco last year reported net earnings of Won719bn (894m) on sales of Won5,702bn.

## Aegon reports 6.3% increase to Fl 235m

By Ronald van de Krol in Amsterdam

AEGON, the Dutch insurance group, reported a 6.3 per cent increase in third-quarter net profits and a 9.4 per cent rise for the first nine months of the year.

Net profits - which consist of operating profits and realised profits on investments - totalled Fl 235m (€130.5m) in the third quarter, against Fl 221m a year earlier, helping to lift nine-month results to Fl 688m from Fl 638m.

Aegon, whose main business is life insurance, described the results as very satisfactory.

## Unilever lifts Indian stake

UNILEVER, the Anglo-Dutch processed food and consumer product company, is to inject Rs370m (€13m) into Lipton India, to raise its stake to 51 per cent from its present holding of 40 per cent. Reuter reports from Bombay.

Lipton India, which blends and packages tea as well as producing animal feeds and edible oils, will use the fresh capital to develop its food processing lines, it said. These

given the difficult conditions in insurance markets.

Operating profits in the first nine months were up by 9.7 per cent at Fl 571.3m, while after-tax profits on investments rose by 7.9 per cent to Fl 127.0m.

Aegon repeated earlier forecasts that operating profits would show a clear rise in 1992 as a whole.

The number of outstanding shares is also expected to increase markedly because of stock dividends, options and a 1991 convertible bond issue, leading Aegon to predict that operating profits per share would at least match the 1991 result.

include instant tea, fish feed and margarine. The company will convene an extraordinary general meeting in Calcutta on December 23 to approve the proposed majority holding.

Unilever, the Anglo-Dutch group's wholly-owned subsidiary, will pay Rs105 per Rs10 share for the additional 3.68m shares, Lipton India said.

In 1991 Lipton India earned net profits of Rs115.3m on turnover of Rs61.56bn.

## Misawa falls 39% after six months

By Emiko Terazawa in Tokyo

MISAWA Homes, the Japanese housing company, posted a 39 per cent fall in first-half taxable profits due to the faltering domestic housing market.

Non-consolidated pre-tax profits for the six months to September fell to Y8.4bn (€51.61m) from Y10.5bn a year earlier. Sales fell 14.7 per cent to Y110.9bn and after-tax profits plunged 53.6 per cent to Y2.4bn. The company was hit by a sharp fall in urban development projects, while revenues from its golf course membership businesses also fell.

Orders received during the first six months slid 15.3 per cent to Y117.2bn.

For the year to March, Misawa expects parent sales to rise 1.4 per cent to Y255bn and pre-tax profits to fall 28.5 per cent to Y13bn. It said profits were likely to be hit by losses on the planned sale of land originally earmarked for development.

© Kamagari Gumi, the Japanese construction company, reported a 22.7 per cent fall in unconsolidated pre-tax profits to Y12.1bn for the first half to September, due to weak capital investment by corporations.

## Norway set to reveal rescue terms for banks

By Karen Fosell in Oslo

NORWAY is today expected to announce details of a recapitalisation package for the country's three biggest banks.

It emerged at the weekend that the ordinary share capital of Den norske Bank (DNB), Norway's biggest bank, has been wiped out and will have to be written down to zero, according to Mr Torodd Hermansen, the head of the state-backed bank insurance fund.

The fund and top executives of the three banks remained

locked in negotiations late last night over further state cash to prop up the banks. Last year the state injected more than Nkr20bn (€3.1bn) into the banking system, which had come close to collapse.

Mr Jarl Veggen, a DNB executive, refused yesterday to comment on the fund's statement that the bank's ordinary share capital had been wiped out. DNB's A-shares have recently been trading at Nkr0.80 on the Oslo bourse.

Mr Veggen said negotiations with the fund were likely to

continue through the night and that a meeting of DNB's board could then be convened to settle how much cash the bank would be forced to seek from the state.

Mr Hermansen said the banks would be given sufficient state capital for their capital adequacy to exceed the 8 per cent BIS minimum required by the end of the year. The banks are believed to be seeking enough cash to shore up their capital adequacy to at least 10 per cent of risk-weighted assets.

Mr Hermansen said further state capital transfers, which would have to be approved by parliament, would be subject to stringent terms and conditions. He called on the banks to cut costs drastically and take steps to boost profitability.

However, the banks' fourth-quarter earnings are likely to suffer from the turmoil in the foreign currency markets which forced Sweden last week to float its currency and put heavy pressure on the Norwegian krone.

## Building on strengths

As I did last year, I would like to take this opportunity to outline the position of Lafarge Coppée within the broader economic context.

## In an unfavourable environment...

The sluggish trends observed worldwide in 1991 have not improved. On the contrary, the long-awaited recovery in the US has not materialized, and the downturn in construction on our main European markets has steepened in the second half of 1992. This is principally due to a lack of confidence among economic agents, who have opted to sit on the sidelines. Currency-market upsets have created additional strains, and our 1993 projections call for a further decline in demand, although more limited in scope.

## ...we have withstood the market downturn...

Against this clouded backdrop, our group has benefited from its presence on a number of more vigorous markets. These include Germany's new Länder, where reconstruction has now got under way, as well as economies in the process of industrialization in Turkey, Morocco, Venezuela and the Indian Ocean. All told, our worldwide sales of cement this year should be on a par with those recorded in 1991.

At the same time, we are now reaping the rewards of past investments in plant modernization, cost-cutting measures and new-product development.

As a result, we were able to report first-half earnings equal to those for the same period of 1991.

## ...through a renewed focus on rationalization and productivity.

With a view to better withstanding the current downturn and rebuilding profits, we are stepping up efforts to streamline operations and enhance productivity:

- in North America, cost-cutting and divestment of non-strategic assets have trimmed losses at Lafarge Corporation.

- on a European market in the throes of restructuring, Plâtres Lafarge has lifted productivity 30% in just four years. The end of the downward trend in gypsum wallboard prices is also encouraging. And Asland has undertaken sweeping reorganization to alleviate the effects of slackening in the Spanish economy.

- we have continued to invest, albeit very selectively, choosing only those targets that meet our requirements in terms of profitability. In 1992, investments will total FRF 3 billion, of which the bulk will be financed out of cash flow and the proceeds of selective divestments.

- we are determined not to sacrifice the reliability and future potential of our production facilities, and we are equally committed to ensuring proper respect for environmental standards. We are pursuing investment in research and development and continuing recruitment, although at a slightly reduced pace, to build our human-resource base for the future.

The success of the swap offer to minority shareholders of Cementia reflects their confidence in Lafarge Coppée and will have a positive impact on group earnings per share.

Combining near-term rigor with a continued drive to build the foundations for long-term success is a tricky exercise, but there is no alternative. It demands that each and every one of us, at all levels within the group, remain committed to meeting our profitability targets.

## Strength to face challenges ahead.

In 1993, we expect a further decline in demand from Western Europe, while in the US our markets can only benefit if the plans for economic stimulants attributed to the new administration are confirmed.

There is thus considerable uncertainty surrounding prospects for coming months and even years. But in facing this challenge, Lafarge Coppée can draw on significant strengths in a number of key areas:

- a healthy balance sheet, with around FRF 10 billion debt set against FRF 24 billion in shareholders' equity.
- a balanced geographical spread and a wide product range, which together allow us to take immediate advantage of any upturn, wherever it occurs.
- markets where needs for building materials—for housing, infrastructure and renovation—are undeniable, even if current economic trends are unfavorable.
- the will and the capacity to move ahead in keeping with a shared set of values.

Together, these strengths will enable us to successfully pursue our prime aim: ensuring the profitable operation of our group and serving the long-term interests of our shareholders.

Bertrand Collomb  
Chairman and Chief Executive Officer



worldwide leader of building materials

## INTERNATIONAL CAPITAL MARKETS

## INTERNATIONAL BONDS

## Flood of Eurosterling debt fails to reach market

A CASUAL glance at the international bond market at the end of last week would have left the impression that sterling corporate debt was all the rage.

The UK government had just sold more than £1.3bn of the stuff, and British Gas had raised £300m through a 25-year bond issue. Surely the bond markets were not that hungry for Eurosterling - and from corporates in particular?

In reality, very little of this wave of debt actually found its way - or is likely to find its way - on to the market. In fact, just £228m of it is thought to have been put up for offer straight away.

Nearly £500m more was reportedly being restructured by investment banks before onward sale. The remaining £728m was bought back for cancellation by the companies which had issued it - though at least some of this could have an effect on the market eventually if the issuers seek to refinance.

The government's sale was instantly declared a success by the market, and a significant coup for Baring Brothers, which had masterminded the process. The bank organised a single auction in which different tranches of debt with different maturities and coupon rates

were put up for sale - a bit like trying to weigh bids for apples and oranges against each other.

Also, it wanted to harness market competition for the auction, even though only BT's debt could be bid for by outsiders. Covenants prevented the debt of the 12 electricity companies which was being sold, from being offered to anyone other than the companies themselves.

Baring's answer was a baseline for each tranche against which bids could be compared.

For each slice on offer, this was taken to be the yield that the issuer would have to pay to refinance the amount in the bond market, with a premium added to reflect the fact that the debt being sold off carried high interest rates - the debt eventually sold had paid interest of between 11.5 and 12.25 per cent.

The baseline was then reduced to make the whole exercise tax-neutral for the issuers. Otherwise, they would have suffered an extra tax charge when buying and cancelling debt at a premium.

Of the £1.3bn eventually sold, only the £228m slice of BT debt bought by UBS Phillips & Drew, the largest single allocation and, at 2006, the one with the longest maturity - was reoffered for immediate

sale. UBS confirmed that the debt, which carried a coupon of 12.25 per cent, was being offered at a yield of 48 to 50 basis points over gilts. It refused to comment on market rumours that it had acquired the debt at a yield spread of 55 basis points.

Given the rarity of longer-dated BT paper - in fact, the rarity of any long-dated Eurosterling recently - it was not surprising that good demand was reported.

P&D's slice may have been the largest, but all of the debt sold in the auction was at maturities stretching to the year 2000 or beyond.

Bids had been more aggressive at that end of the yield curve, reflecting demand for higher-yielding paper as the sterling yield curve has become steeper. It is no surprise that the next gilt auction, due shortly, is expected to be of bonds maturing in 2003.

Goldman Sachs, the only other bank to bid successfully, was said by rivals to be stripping the coupons from its £180m of BT debt with a coupon of 12.25 per cent, to be sold separately as a series of zero-coupon issues. This is a technique in which Goldman is the acknowledged leader in London. According to one

rival, this structure could squeeze up to 30 basis points more in yield terms out of the bonds.

Outside competition from these other banks - and bidding from seven of the companies whose debt was up for sale - helped ensure what Baring and others said was a good price for the UK taxpayer. The average yield on the debt sold was a substantial 17 basis points lower than Baring's baseline - though no actual sale prices were published to enable the market to make up its own mind about the outcome.

Goldman was not the only bank rumoured to be preparing a stripped Eurosterling issue on Friday. BZW announced a 25-year private placement for British Gas which was seen by the market as a carbon copy of an issue for Boots earlier this year.

Neither BZW nor the issuer would disclose how the bonds were structured. However, rivals said both the Boots and British Gas deals had involved early coupons being stripped and sold separately.

Payments to meet these coupons, though treated for tax purposes as interest, would effectively be equivalent to capital repayments.

The announcement of the British

Gas deal, though not of its terms, prompted other banks which claim to have created similar structures to warn of possible retaliation from the taxman. "If we were doing it, we would keep it extraordinarily quiet - the Inland Revenue has screens too," one bank said.

British Gas itself - in common with other sterling issuers - has no plans at the moment to borrow long-term money.

The company expects short-term rates to continue to fall, with another half a point off five-year yields, said Mr Arthur Burgess, treasurer.

He expects longer-dated yields, on the other hand, to rise. British Gas, which is just entering its peak borrowing period of the year, plans to meet all its extra requirements through short-term credit lines and commercial paper.

Another structured deal did not even get out of the blocks last week: Kingfisher, the retailing group, had retained UBS to raise money in the Eurosterling market. However, problems with timing have now led to the issue being postponed until after Christmas, according to one source close to the deal.

Richard Waters

## RISK AND REWARD

## Borrowers take a chance on 'diffs' as swaps' allure dims

TOUGH conditions in the swaps market have made it harder than ever for companies to borrow cheaply, encouraging some to opt for more radical solutions. In the process, some companies - and their financial intermediaries - are taking on substantially bigger risks.

During the 1980s, companies were able to borrow at levels well below the London interbank offered rate (Libor) by swapping the fixed-rate money they raised through bond offerings into floating-rate financing. Now, only the best-rated borrowers can hope to do this.

Falling US interest rates have squeezed the availability of swaps in the dollar market. Borrowers have been unwilling to lock themselves into fixed-rate interest costs, while rates are expected to ease further. The result: fewer people willing to pay the fixed-rate leg of a swap agreement.

Other factors have also contributed to the decline in the swap market's attractions. The growing sophistication of investors and intermediaries and a breakdown of the barriers between domestic markets for arbitrage between markets. At the same time, bond and swap markets have become tightly linked, so that price movements in one are quickly transmitted into the other.

"Swaps and bonds have become much more closely correlated. Those who want cheap funding are now having to take risks to get it," said Mr Nick Burge, executive director at Nomura International.

The most successful product this year has been the differential or "diff" swap, also known as the "quanto" swap, which allows a borrower to separate currency and interest rate exposure, by paying interest rates based on one currency while taking the currency risk of another.

For example, a company with D-Mark liabilities, paying say 8 per cent interest, may look seriously at dollar rates of 3 1/2 per cent. Under a differential swap agreement, the company agrees to receive D-Mark Libor in D-Marks, and to pay a margin over dollar Libor in D-Marks.

The structure takes advantage of different-shaped yield curves to create immediate cost savings for the borrower. Such an agreement typi-

cally runs from three to five years, so the borrower is essentially betting that the shift in interest rates will be slower than the yield curve suggests.

"There are monetary policy pressures to keep short-term interest rates low, and supply fears to keep rates high at the long end [of the dollar market]," says Mr Ron Tannebaum, head of fixed-income derivatives products at Salomon Brothers.

The risk for the company is that if US interest rates rise or D-Mark interest rates fall more quickly than expected, planned cost savings could soon be replaced by losses. Because it is more complicated than a conventional swap, a diff swap is also more difficult to unwind.

The financial intermediary assumes substantially greater risk than in a normal swap. Currency risk, artificially separated from interest rate risk in this way, is very difficult to hedge, since there is no direct correlation between currency and interest rate movements.

"Diff swaps are more difficult to manage than a straightforward swap," says Mr Malcolm Basing, who heads the International Swaps Dealers Association. "It's not something you can put into the top drawer and forget about."

Diff swaps require what is known as dynamic hedging, which means that hedges must be constantly adjusted in line with the latest market moves.

Even then, there is the risk that assumed correlation between interest rates and currencies will suddenly disappear.

According to swap specialists, the structure of differential swaps is now widely understood, but the methods of hedging residual exposure remain proprietary.

Diff swap technology has also been applied to suit investors' requirements. Credit for the concept is claimed by Credit Suisse Financial Products, which began marketing diff swaps to Japanese investors in early 1991.

There could be room for further product expansion. According to Mr Chris Gookin, head of risk management at CSFP, it may be that "not all the applications [of diff swap technology] have been developed yet."

Tracy Corrigan

## NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Bank runner	Offer yield %
<b>US DOLLARS</b>							
Yokokama Rubber Co.(a)	180	1998	4	3	100	Yamashita Int.(Europe)	-
Daiwa House Ind.Co.(b)	300	1998	4	2.375	100	Nomura Int.	-
Japan Development Bank	300	1999	7	5.875	98.58	LYG Int.	5.932
Tomoku Co.(b)	70	1998	4	2.375	100	Nikko Europe	-
Bayerische Vereinsbank(a)	50	2002	9.72	(c)	100	Merrill Lynch	-
Republic of Finland(a)	250	1997	5	6.75	99.55	Merrill Lynch Int.	6.858
Kingdom of Sweden	250	1995	5	5.5	99.42	JP Morgan Secs.	5.716
Square D Co.(b)	250	2000	10.08	2	94.63	Lehman Bros.Int.	-
Sumitomo Bk.Cap.Mkt.(g)	80	2002	10	(g)	100	Sumitomo Financial Int.	-
LKB Baden-Wuert. Fin.	250	1997	5	6.25	99.63	Nomura Int.	6.386
Leviatant(a)	150	1997	5	(h)	100	Morgan Stanley Int.	-
World Bank(a)	50	2002	9.9	(h)	100	Lehman Bros.Int.	-
IBM Japan	250	1997	5	6.5	101.27	Nikko Europe	6.196
Banco Sudameris Bn.(a,p)	70	1995	2.5	10.25	99.31	Paribas Cap.Mkts.	10.571
Toyota Motor Credit Corp.	250	1994	5	2	100.675	Swiss Bank Corp.	4.639
Swedish Export Credit(a)	50	2002	9.91	(a)	100	Lehman Bros.Int.	-
<b>YEN</b>							
Secom Co.(n)	300m	1998	5.3	2	100	Nomura Int.	-
Shin Nihon Co.	100m	1998	6.25	5.4	101.95	Nomura Int.	5.091
Kingdom of Belgium	750m	1999	7	5	98.71	Nomura Int.	5.030
Mazda Motor Corp.	200m	2001	8.25	5.5	101.85	Nomura Int.	5.215
Mazda Motor Corp.	100m	2000	7.25	5.45	101.7	Banco del Gollardo	5.159
<b>D-MARKS</b>							
Metropolis of Tokyo	350	2002	9.99	7.375	101.825	IS(Deutsch.)	7.143
Basque Regional Govt.	200	2002	10	8	101.025	Goldman Sachs	7.731
Nikitan Foods Co.(n)(a)	12	1995	4	(n)	100	Sumitomo(Deutsch.)	-
Irish Telecom Int.	300	2000	7	7.75	102	Drescher Bank	7.374
Europäische Hypo-bank	100	1998	6	7.375	101.1	Frankfurter Hypo-bank	7.143
Ando Corp.(a)(b)	50	1996	4	(a)	100	DKB(Deutsch.)	-
<b>STERLING</b>							
Suedvestdeutsche Lbk	100	2002	10	8.25	101.47	Lehman Bros.Int.	8.402
British Gas(a)	300	2017	25	9.5	100.334	BZW	9.444
<b>FRENCH FRANCS</b>							
CAR(a)	100	1998	7	(a)	100	Paribas Cap.Mkts.	-
Crédit Foncier de France(a)	800	2002	9.18	8.625	100.97	Société Générale	8.481
Ville de Paris	500	1999	7	8.25	99.58	CSFB France	8.339
<b>GUILLERDS</b>							
St.Dutch Municipal(a)	500	2002	10	7.625	100.85	ABN Amro	7.501
VSB Groep	150	2000	8	7.75	100.6	KWB Effectenbank	7.847
SHV Holdings	200	2003	10	8	101.85	Bank Mees & Hope	7.767
<b>AUSTRALIAN DOLLARS</b>							
Crédit Lyonnais Australie	75	1997	8	8.625	101.4	Geminio Bank	8.272
EBRD(a)	80	2002	9.85	9	101.842	Merrill Lynch Int.	8.753
Finnish Export Credit	75	1999	7	9.25	100.4	Hambros Bank	9.170
<b>SWISS FRANCS</b>							
Daiwa House Ind.Co.(b)(c)	300	1998	4	2.75	100	Union Bk. of Switz.	-
Mitsubishi Oil Co.(a)(b)(c)	300	1998	4	2.875	100	Crédit Suisse	-
Tokai Standard Co.(b)(c)	100	1998	4	2.875	100	Bank Julius Baer	-
Toyo Chemical(b)(c)	50	1998	4	2.875	100	Paribas Suisse	-
Du Pont de Nemours(a)(c)	100	2000	7	6.25	102	Swiss Bank Corp.	5.918
<b>LUXEMBOURG FRANCS</b>							
SLCB(a)	300	1999	7	8.2	100	Paribas Luxembourg	8.200
Crédit Commercial de Fr.	100	2003	10	8.25	102	Banque Générale Lux.	7.888

First terms and non-callable unless stated. (a) Private placement. (b) Convertible. (c) With equity warrants. (d) Floating rate note. (e) Escrowed premium bond at approximately 2.5%. (f) Final term fixed on 24/11/92. (g) Fungible with \$100m outstanding. Coupon pays 12.25% below 6-month Libor. Minimum coupon 8%, maximum 10%. (h) Full name of borrower is "Caisse Autonome de Refinancement". Coupon pays 3 1/4% fixed annual for first year and 2 1/4% - 6-month Plur thereafter. (i) Coupon payable semi-annually. (j) Exchangeable into Schneider shares. Conversion premium fixed at 11.7%. Callable from 1/1/97. (k) Coupon pays 70% above 6-month Libor for first 3 years and 8 1/4% fixed annual thereafter. (l) Coupon pays 40% over 6-month Libor. (m) Issued on a floating basis via Credit Suisse. (n) First term fixed on 28/11/92. (o) Full name of borrower is "Bank für Sozialwirtschaft AG". (p) Issued on a floating basis via Credit Suisse. (q) Coupon pays 72% above 6-month Libor. Callable and puttable at par on all coupon payment dates. (r) Fungible with \$100m outstanding. Coupon pays 20% below 6-month Libor. Minimum coupon 8%, maximum 10%. (s) Conversion premium fixed at 2 1/4% (par). (t) Price 100.00. Callable from 1/1/95 - subject to share price being 105% of conversion price for 30 consecutive days - at 105% (declining by 1% per annum). (u) Fungible with \$100m bonds launched on 17/9/92. Plus 55 days accrued interest. (v) Puttable at par if Banco Sudameris' 60% shareholding in borrower falls below 61%. (w) Coupon pays 50% above 6-month Libor. (x) Fungible with \$100m outstanding. (y) Fungible with \$100m outstanding. Plus 34 days accrued interest. Price, less undisch. Coupon pays 12.25% below 6-month Libor. Minimum coupon 8%, maximum 10%. Note: Yields calculated on ISMA basis.

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Head of trading: Richard Tuffier (331) 40.20.22.02			

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## CPR GROUP

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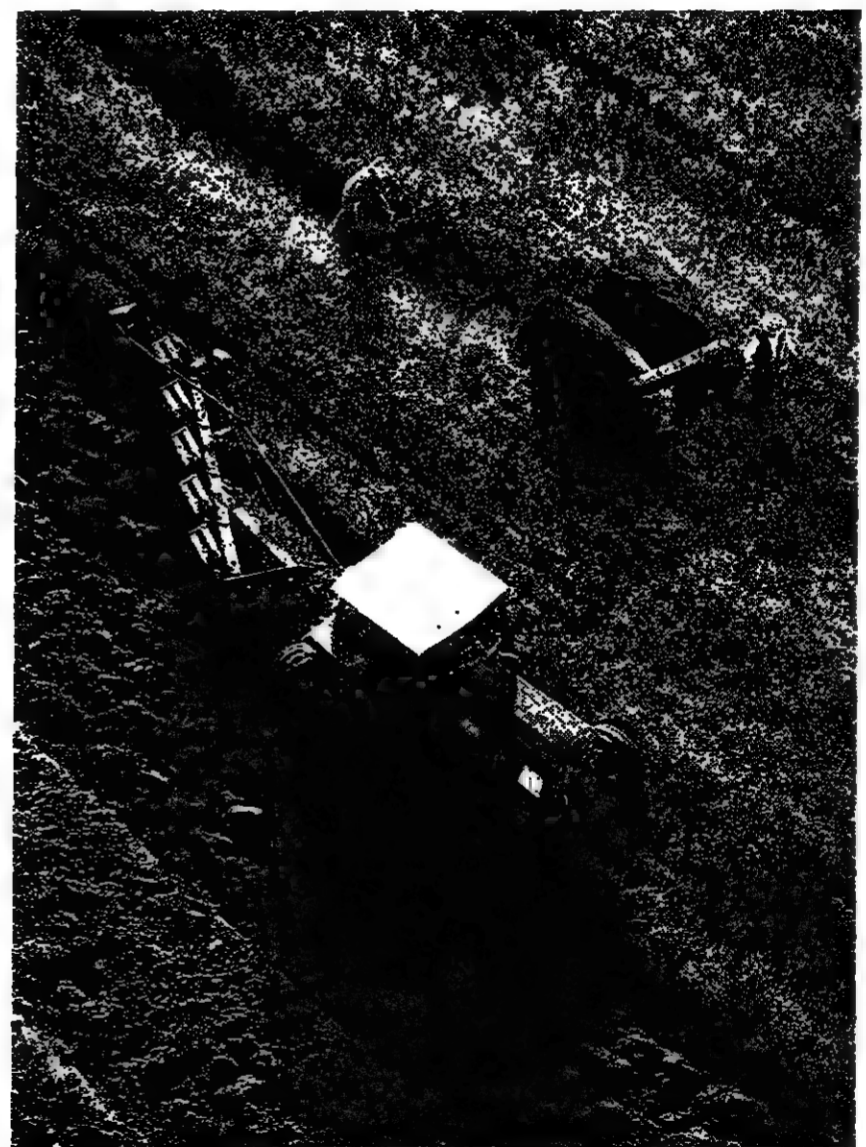
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**JPMorgan**





## FINANCIAL TIMES MONDAY NOVEMBER 23 1992

[illegible]

Sales	Stock	High	Low	Close	Change	Sales	Stock	High	Low	Close	Change
<b>TORONTO</b>											
4 pm close November 20											
Quotations in cents unless marked S											
5200 Asplm Pl	512 1/2	513 1/2	514	—		7000 Dominion A	58				
5800 Bldg	512 1/2	513 1/2	514	—		5800 Dominion B	58				
7500 Alu Cl	58	58	58	—		5800 Dominion C	58				
13400 Altona Int	57 1/2	58 1/2	58 1/2	—		5800 Dominion D	58				
7000 Altona Int	514 1/2	514 1/2	514 1/2	—		5800 Dominion E	58				
7000 Altona Int	58	58	58	—		5800 Dominion F	58				
112000 Altona Int	58 1/2	58 1/2	58 1/2	—		5800 Dominion G	58				
81000 Altona Int	58 1/2	58 1/2	58 1/2	—		5800 Dominion H	58				
50000 Altona Int	58 1/2	58 1/2	58 1/2	—		5800 Dominion I	58				
50000 Altona Int	58 1/2	58 1/2	58 1/2	—		5800 Dominion J	58				
50000 Altona Int	58 1/2	58 1/2	58 1/2	—		5800 Dominion K	58				
50000 Altona Int	58 1/2	58 1/2	58 1/2	—		5800 Dominion L	58				
50000 Altona Int	58 1/2	58 1/2	58 1/2	—		5800 Dominion M	58				
50000 Altona Int	58 1/2	58 1/2	58 1/2	—		5800 Dominion N	58				
50000 Altona Int	58 1/2	58 1/2	58 1/2	—		5800 Dominion O	58				
50000 Altona Int	58 1/2	58 1/2	58 1/2	—		5800 Dominion P	58				
50000 Altona Int	58 1/2	58 1/2	58 1/2	—		5800 Dominion Q	58				
50000 Altona Int	58 1/2	58 1/2	58 1/2	—		5800 Dominion R	58				
50000 Altona Int	58 1/2	58 1/2	58 1/2	—		5800 Dominion S	58				
50000 Altona Int	58 1/2	58 1/2	58 1/2	—		5800 Dominion T	58				
50000 Altona Int	58 1/2	58 1/2	58 1/2	—		5800 Dominion U	58				
50000 Altona Int	58 1/2	58 1/2	58 1/2	—		5800 Dominion V	58				
50000 Altona Int	58 1/2	58 1/2	58 1/2	—		5800 Dominion W	58				
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50000 Altona Int	58 1/2	58 1/2	58 1/2	—		5800 Dominion Y	58				
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50000 Altona Int	58 1/2	58 1/2	58 1/2	—		5800 Dominion AI	58				
50000 Altona Int	58 1/2	58 1/2	58 1/2	—		5800 Dominion AJ	58				
50000 Altona Int	58 1/2	58 1/2	58 1/2	—		5800 Dominion AK	58				
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50000 Altona Int	58 1/2	58 1/2	58 1/2	—		5800 Dominion AM	58				
50000 Altona Int	58 1/2	58 1/2	58 1/2	—		5800 Dominion AN	58				
50000 Altona Int	58 1/2	58 1/2	58 1/2	—		5800 Dominion AO					

	Nov 30	Nov 19	Nov 16	Nov 17	HIGH	1988
<b>CANADA</b>						
<b>TORONTO</b>						
Index & Minors	2872.54	2841.94	2834.99	2829.71	3238.67 (Jan 1)	28
Composite	3263.76	3233.73	3231.46	3218.50	3646.09 (Jan 1)	31
MONTREAL						
Index & Minors	1733.82	1711.49	1711.36	1698.56	1937.39 (Jan 1)	16

Base value of all indices are 100 except NYSE All Common - 90 Standard and Poors Composite and Metals - 1000. Toronto indices based 1970 and Montreal 1969. 83. 1 Existing bonds Industrial, plus Utilities, Financial and Transportation, 60 Unavailable, 9 The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day for each stock; whereas the actual day's highest and lowest prices are the actual highest and lowest prices reached during the day. (The figures in brackets are previous day's).

TOKYO			
FRI			
	Stocks	Clos.	Chg.
	Traded	Price	
Nikkei 225 Ind. & Fin.	7,401	7,401	1.00
Nippon Indus.	5,200	5,200	1.00
Kanzen Pharm.	5,300	5,300	1.00
SS Pharm.	5,300	5,300	1.00
Kobe Denso	4,300	4,300	1.00

SWITZERLAND	841.6	842.8	839.2	840.8	851.40 (L1/2)	748.50 (B1/2)
Swiss Bank Ind. (L1/2) (250)	630.7	631.6	630.1	631.9	642.30 (L1/2)	596.40 (B1/2)
SBC Comm (L1/2) (2)						
TAYWAN**						
Worldwide Price (250/250)	3724.33	3642.38	3648.10	3583.71	3573.63 (250)	3324.43 (250)
THAILAND						
Bangkok SET (250/25)	871.72	834.17	866.04	881.49	903.03 (25/10)	867.84 (L1/10)
WORLD						
U.S. Capital Ind. (L1/2) (700 10)	486.4*	486.6	486.6	476.8	542.10 (7/11)	467.50 (B1/4)
Europe Top-100 (250/250)	849.71	840.38	842.20	841.94	876.55 (25/5)	772.52 (25/10)
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## OTHER UK UNIT TRUSTS

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[illegible]

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هكذا صمد الأصل

# CURRENCIES, MONEY AND CAPITAL MARKETS

## FOREIGN EXCHANGE AND MONEY MARKETS

### Focus on Germany

IN THE WAKE of last week's turmoil in the European exchange rate mechanism, dealers will pay even more attention to the prospects for a reduction in official German interest rates this week, writes James Bilz.

The markets have recently tempered their optimism about an easing in German monetary policy, and money markets continue to doubt whether there will be another cut in the discount rate this year.

will rise to 9.5 per cent from a previous 9.3 per cent. This falls well outside the current annual target range of 3.5-6.5 per cent.

Mackinnon points out that the Bundesbank is due to revise its target for M3 growth next month. The 5 independent economic advisers to the German government - the "five wise men" - said last week that the M3 target should be revised up from 6 per cent to 8 per cent.

#### UK clearing bank line ending rate 7 per cent

from November 12, 1992

However, the after-effects of Sweden's float of the krona pushed weaker ERM currencies nearer their floors last week, and the earlier optimism about a rate cut is again taking hold.

An important indication of whether the Bundesbank can afford to ease policy will come in the M3 money supply figures for October due out this week. Mr Neil Mackinnon, chief economist at Citibank in London, believes the figure

In the US, the main focus will be on this week's preliminary figure for 3rd Quarter GDP, due on Wednesday, and the figures for Durable Goods orders and Consumer confidence in September and October due tomorrow. Both will give further indications of the strength of the upturn in the US economy.

However, analysts believe that the economic appointments of Mr Bill Clinton's new administration are certain to have a more immediate impact on dollar/D-Mark trading.

#### £ IN NEW YORK

Nov 20	Close	Previous
1.5125-1.5135	1.5130	1.5130
1.5135-1.5145	1.5140	1.5140
1.5145-1.5155	1.5150	1.5150
1.5155-1.5165	1.5160	1.5160

#### STERLING INDEX

Nov 20	Close	Previous
83.00	83.00	83.00
83.00	83.00	83.00
83.00	83.00	83.00
83.00	83.00	83.00

#### CURRENCY MOVEMENTS

Nov 20	Bank of England	Market	Change
Switzerland	70.4	70.4	-0.1
US Dollar	162.5	162.5	-0.2
Japanese Yen	162.5	162.5	-0.2
French Franc	162.5	162.5	-0.2

#### CHICAGO

Nov 20	Close	Previous
103.24	103.24	103.24
103.24	103.24	103.24
103.24	103.24	103.24
103.24	103.24	103.24

#### U.S. TREASURY BOND

Nov 20	Close	Previous
103.24	103.24	103.24
103.24	103.24	103.24
103.24	103.24	103.24
103.24	103.24	103.24

#### U.S. TREASURY BOND

Nov 20	Close	Previous
103.24	103.24	103.24
103.24	103.24	103.24
103.24	103.24	103.24
103.24	103.24	103.24

#### U.S. TREASURY BOND

Nov 20	Close	Previous
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103.24	103.24	103.24
103.24	103.24	103.24
103.24	103.24	103.24

#### U.S. TREASURY BOND

Nov 20	Close	Previous
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#### U.S. TREASURY BOND

Nov 20	Close	Previous
103.24	103.24	103.24
103.24	103.24	103.24
103.24	103.24	103.24
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#### U.S. TREASURY BOND

Nov 20	Close	Previous
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#### U.S. TREASURY BOND

Nov 20	Close	Previous
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#### U.S. TREASURY BOND

Nov 20	Close	Previous
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#### U.S. TREASURY BOND

Nov 20	Close	Previous
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#### U.S. TREASURY BOND

Nov 20	Close	Previous
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#### U.S. TREASURY BOND

Nov 20	Close	Previous
103.24	103.24	103.24
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#### U.S. TREASURY BOND

Nov 20	Close	Previous
103.24	103.24	103.24
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103.24	103.24	103.24

#### U.S. TREASURY BOND

Nov 20	Close	Previous
103.24	103.24	103.24
103.24	103.24	103.24
103.24	103.24	103.24
103.24	103.24	103.24

## POUND SPOT - FORWARD AGAINST THE POUND

Nov 20	Day's spread	Close	One month	% p.a.	Three months	% p.a.
1.5125-1.5135	1.5130	1.5130	0.52-0.54	4.02	1.25-1.26	3.25
1.5135-1.5145	1.5140	1.5140	0.54-0.56	4.02	1.26-1.27	3.25
1.5145-1.5155	1.5150	1.5150	0.56-0.58	4.02	1.27-1.28	3.25
1.5155-1.5165	1.5160	1.5160	0.58-0.60	4.02	1.28-1.29	3.25

## DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Nov 20	Day's spread	Close	One month	% p.a.	Three months	% p.a.
1.5125-1.5135	1.5130	1.5130	0.52-0.54	4.02	1.25-1.26	3.25
1.5135-1.5145	1.5140	1.5140	0.54-0.56	4.02	1.26-1.27	3.25
1.5145-1.5155	1.5150	1.5150	0.56-0.58	4.02	1.27-1.28	3.25
1.5155-1.5165	1.5160	1.5160	0.58-0.60	4.02	1.28-1.29	3.25

## EXCHANGE CROSS RATES

Nov 20	Close	Previous
1.5125-1.5135	1.5130	1.5130
1.5135-1.5145	1.5140	1.5140
1.5145-1.5155	1.5150	1.5150
1.5155-1.5165	1.5160	1.5160

## EURO-CURRENCY INTEREST RATES

Nov 20	Close	Previous
1.5125-1.5135	1.5130	1.5130
1.5135-1.5145	1.5140	1.5140
1.5145-1.5155	1.5150	1.5150
1.5155-1.5165	1.5160	1.5160

## FT LONDON INTERBANK FIXING

Nov 20	Close	Previous
1.5125-1.5135	1.5130	1.5130
1.5135-1.5145	1.5140	1.5140
1.5145-1.5155	1.5150	1.5150
1.5155-1.5165	1.5160	1.5160

## MONEY RATES

Nov 20	Close	Previous
1.5125-1.5135	1.5130	1.5130
1.5135-1.5145	1.5140	1.5140
1.5145-1.5155	1.5150	1.5150
1.5155-1.5165	1.5160	1.5160

## NEW YORK

Nov 20	Close	Previous
1.5125-1.5135	1.5130	1.5130
1.5135-1.5145	1.5140	1.5140
1.5145-1.5155	1.5150	1.5150
1.5155-1.5165	1.5160	1.5160

## LONDON SHARE RATES

Nov 20	Close	Previous
1.5125-1.5135	1.5130	1.5130
1.5135-1.5145	1.5140	1.5140
1.5145-1.5155	1.5150	1.5150
1.5155-1.5165	1.5160	1.5160

## FT-ACTUARIES WORLD INDICES

Nov 20	Close	Previous
1.5125-1.5135	1.5130	1.5130
1.5135-1.5145	1.5140	1.5140
1.5145-1.5155	1.5150	1.5150
1.5155-1.5165	1.5160	1.5160

## FT-ACTUARIES WORLD INDICES

Nov 20	Close	Previous
1.5125-1.5135	1.5130	1.5130
1.5135-1.5145	1.5140	1.5140
1.5145-1.5155	1.5150	1.5150
1.5155-1.5165	1.5160	1.5160

## FT-ACTUARIES WORLD INDICES

Nov 20	Close	Previous
1.5125-1.5135	1.5130	1.5130
1.5135-1.5145	1.5140	1.5140
1.5145-1.5155	1.5150	1.5150
1.5155-1.5165	1.5160	1.5160

## FT-ACTUARIES WORLD INDICES

Nov 20	Close	Previous
1.5125-1.5135	1.5130	1.5130
1.5135-1.5145	1.5140	1.5140
1.5145-1.5155	1.5150	1.5150
1.5155-1.5165	1.5160	1.5160

## FT-ACTUARIES WORLD INDICES

Nov 20	Close	Previous
1.5125-1.5135	1.5130	1.5130
1.5135-1.5145	1.5140	1.5140
1.5145-1.5155	1.5150	1.5150
1.5155-1.5165	1.5160	1.5160

## FT-ACTUARIES WORLD INDICES

Nov 20	Close	Previous
1.5125-1.5135	1.5130	1.5130
1.5135-1.5145	1.5140	1.5140
1.5145-1.5155	1.5150	1.5150
1.5155-1.5165	1.5160	1.5160

## FT-ACTUARIES WORLD INDICES

Nov 20	Close	Previous
1.5125-1.5135	1.5130	1.5130
1.5135-1.5145	1.5140	1.5140
1.5145-1.5155	1.5150	1.5150
1.5155-1.5165	1.5160	1.5160

## FT-ACTUARIES WORLD INDICES

Nov 20	Close	Previous
1.5125-1.5135	1.5130	1.5130
1.5135-1.5145	1.5140	1.5140
1.5145-1.5155	1.5150	1.5150
1.5155-1.5165	1.5160	1.5160

## FT-ACTUARIES WORLD INDICES

Nov 20	Close	Previous
1.5125-1.5135	1.5130	1.5130
1.5135-1.5145	1.5140	1.5140
1.5145-1.5155	1.5150	1.5150
1.5155-1.5165	1.5160	1.5160

## LONDON RECENT ISSUES

Nov 20	Close	Previous
1.5125-1.5135	1.5130	1.5130
1.5135-1.5145	1.5140	1.5140
1.5145-1.5155	1.5150	1.5150
1.5155-1.5165	1.5160	1.5160

## FIXED INTEREST STOCKS

Nov 20	Close	Previous
1.5125-1.5135	1.5130	1.5130
1.5135-1.5145	1.5140	1.5140
1.5145-1.5155	1.5150	1.5150
1.5155-1.5165	1.5160	1.5160

## RIGHTS OFFERS

Nov 20	Close	Previous
1.5125-1.5135	1.5130	1.5130
1.5135-1.5145	1.5140	1.5140
1.5145-1.5155	1.5150	1.5150
1.5155-1.5165	1.5160	1.5160

## BANK OF ENGLAND TREASURY BILL TENDER

Nov 20	Close	Previous
1.5125-1.5135	1.5130	1.5130
1.5135-1.5145	1.5140	1.5140
1.5145-1.5155	1.5150	1.5150
1.5155-1.5165	1.5160	1.5160

## WEEKLY CHANGE IN WORLD INTEREST RATES

Nov 20	Close	Previous
1.5125-1.5135	1.5130	1.5130
1.5135-1.5145	1.5140	1.5140
1.5145-1.5155	1.5150	1.

**LONDON SHARE SERVICE****INVESTMENT TRUSTS - Contd.**[illegible]

## LONDON SHARE SERVICE

**Results:**

SHIP	COAST	W/CS	DR	UNIT	DISPATCHED	LAST	CR
NAME	PRICE	NO.	NO.	NO.	DATE	DATE	NO.
U.S.							
1	86	-0.0	0	4 Apr 81	18.0	17282	
2	275	-0.6	23564	1.9 Jan 81	20.5	2821	
3	18	-0.0					
4	10	-0.0	058	3.6 Feb 81	19.0	2894	
5	9	-0.0					
6	13	-13.0				14.1	3220
7	230	-0.0	05830	1.7 Mar 81	27.0	4707	
8	59	-7.5	01515	4 Jun 81	28.4	4353	
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Return Gold	1-48	—	—	—	—	—

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**are not based on "tradition"**

to provide a more complete picture, including the following information. If you are unable to provide the information requested, please indicate the reasons for the omission. If you are unable to provide the information requested, please indicate the reasons for the omission. If you are unable to provide the information requested, please indicate the reasons for the omission.



**NASDAQ NATIONAL MARKET**

Stock	Div.	Yld.	50s	100s	High	Low	Last	Chng	Stock	Div.	Yld.	50s	100s	High	Low	Last	Chng	Stock	Div.	Yld.	50s	100s	High	Low	Last	Chng		
Shaw	0.64	21	341	364	355	36	44	+	DOY Tech	0.58	10	145	145	135	145	36	44	+	Standard	1.20	50	5	315	304	315	304	+	
AMC Corp	0.35	872	203	174	204	36	44	+	Driford	0.28	10	102	102	94	102	36	44	+	Seangate	0.71728	104	104	104	104	104	104	+	
AMC Corp	0.35	872	203	174	204	36	44	+	Driford	0.28	10	102	102	94	102	36	44	+	SGS Corp	0.10	21	301	301	301	301	301	301	+
Amoco	18	20	121	121	114	12	12	+	Driford	0.28	10	102	102	94	102	36	44	+	Seaford	0.32	0.4	104	104	104	104	104	104	+
Amoco	18	20	121	121	114	12	12	+	Driford	0.28	10	102	102	94	102	36	44	+	Seaford	0.32	0.4	104	104	104	104	104	104	+
Amoco	18	20	121	121	114	12	12	+	Driford	0.28	10	102	102	94	102	36	44	+	Seaford	0.32	0.4	104	104	104	104	104	104	+
Amoco	18	20	121	121	114	12	12	+	Driford	0.28	10	102	102	94	102	36	44	+	Seaford	0.32	0.4	104	104	104	104	104	104	+
Amoco	18	20	121	121	114	12	12	+	Driford	0.28	10	102	102	94	102	36	44	+	Seaford	0.32	0.4	104	104	104	104	104	104	+
Amoco	18	20	121	121	114	12	12	+	Driford	0.28	10	102	102	94	102	36	44	+	Seaford	0.32	0.4	104	104	104	104	104	104	+
Amoco	18	20	121	121	114	12	12	+	Driford	0.28	10	102	102	94	102	36	44	+	Seaford	0.32	0.4	104	104	104	104	104	104	+
Amoco	18	20	121	121	114	12	12	+	Driford	0.28	10	102	102	94	102	36	44	+	Seaford	0.32	0.4	104	104	104	104	104	104	+
Amoco	18	20	121	121	114	12	12	+	Driford	0.28	10	102	102	94	102	36	44	+	Seaford	0.32	0.4	104	104	104	104	104	104	+
Amoco	18	20	121	121	114	12	12	+	Driford	0.28	10	102	102	94	102	36	44	+	Seaford	0.32	0.4	104	104	104	104	104	104	+
Amoco	18	20	121	121	114	12	12	+	Driford	0.28	10	102	102	94	102	36	44	+	Seaford	0.32	0.4	104	104	104	104	104	104	+
Amoco	18	20	121	121	114	12	12	+	Driford	0.28	10	102	102	94	102	36	44	+	Seaford	0.32	0.4	104	104	104	104	104	104	+
Amoco	18	20	121	121	114	12	12	+	Driford	0.28	10	102	102	94	102	36	44	+	Seaford	0.32	0.4	104	104	104	104	104	104	+
Amoco	18	20	121	121	114	12	12	+	Driford	0.28	10	102	102	94	102	36	44	+	Seaford	0.32	0.4	104	104	104	104	104	104	+
Amoco	18	20	121	121	114	12	12	+	Driford	0.28	10	102	102	94														

**4 pm close November 20**

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 in New York  
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 Richard Huggins  
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 Fax: 071-873-3078

**FISCHERS**

FINANCIAL TIMES

Perrier bottle ends with something for everyone

## MONDAY INTERVIEW

# Charmed by the simple life

Heinrich von Pierer, chief executive of Siemens, talks to Christopher Parkes and Andrew Fisher

Heinrich von Pierer, chief executive of Siemens, Europe's biggest electronics company, thinks the quest for perfection, one of the traditional strengths of German industry, can go too far. "Germans always try to do the very best that's possible. It's almost a philosophical thing. I believe this perfectionism is not just a Siemens characteristic; it is ingrained in every German engineer," he says. "It's a very sympathetic quality... but I'm a businessman, and it is my job to supply what the market wants."

Mr von Pierer, a trim 51 with a passion for tennis and a taste for colourful ties, is less than two months into the job. He is mulling over the long-standing issues which exercise him in particular and which are common throughout German manufacturing. "We earn too little; 2.5 per cent return on sales is too little," he says of Siemens. He denounces claims from some of his peers that Germany is losing its attraction as a place to invest and manufacture. He rails off the country's well-known educational, political and infrastructural advantages. But then he hesitates as he considers the negative side of the picture.

Rolled together, the disadvantages lead to a single conclusion. "Germany has become too expensive," he says. At Siemens, as at Daimler-Benz and Volkswagen, car groups, the result will be a tough programme of cost-cutting and lay-offs among the company's 400,000-strong global workforce.

Mr von Pierer, formerly a leading local figure in the Christian Social Union (CSU) conservative political party, discovered and corrected one weakness in the group's philosophy - the perfectionist culture - when in charge of KWU, Siemens' power plant division. There, products were sometimes over-engineered, more sophisticated or with more features than the customers wanted or needed, he says. Customers turned elsewhere for simpler, cheaper products.

Similar conditions applied in Siemens' medical engineering arm and are now being tackled. Like KWU, which does two-thirds of its business outside Germany, 80 per cent of the division's sales are abroad. It is, therefore, more exposed to the pressures of international competition than the

group as a whole, which still generates 46 per cent of its DM80bn (£33bn) turnover inside Germany.

"Siemens makes excellent equipment, but the question is: has it always paid us to do so?" Mr von Pierer asks. "We must adapt to the market." The Japanese, coming in from the low-technology end of the market, have built a successful medical equipment business with basic equipment, he says. Naturally, Siemens' quality must not be impaired as it counters this threat, he adds, but "we need to learn to make things differently and more simply."

For Mr von Pierer, this does not involve a revolution in the company. He is no iconoclast, but he is determined to speed up the process of change. In this respect he resembles many German chief executives. "If you scratch just below the top level in many companies, you will find quite a few like him," an associate remarks.

His training as a lawyer and economist, more than his relative youth, marks him out in a business where the engineer has normally ruled. But he is also a consensus-builder in the old mould (he claims his colleagues support his perfectionist critique to a man), with real affection for the company and undisciplined respect for his mentors and predecessors.

He owes much to Mr Karlheinz Kaske, Siemens' chief executive for 12 years until September. Mr Kaske oversaw the acquisitions programme of the 1980s which raised and broadened Siemens' profile in the US and other important markets. He also opened up the group's monolithic structure, creating 17 operating divisions which encompass 300 different business activities.

It has fallen to Mr von Pierer, and others of his generation, to streamline the sprawling empire, penetrate further into foreign markets, especially Asia, and improve the cost structure - at a time when the international and domestic economies are barely growing.

The axe has already fallen on thousands of jobs, notably in Siemens' lost-lead semiconductor and computer businesses. The group, with a staff turnover of about 10 per cent a year, is coming to the point where non-replacement of voluntary leavers and other "pain-free" payroll reduction methods - early retirement, non-re-

## 'We must adapt to the market'

newal of short-term contracts - are no longer enough.

While some companies are hinting that they may soon resort to forced redundancies, anathema in Germany's "social economy", Mr von Pierer is trying to find other ways to cut costs. "The hire-and-fire principle does not exist here, and I never want it to," he says. So he is looking at other ways to boost efficiency. Can over-engineered products be simplified without any loss of

quality? Can tortuous manufacturing processes be shortened or replaced? Is there a greater role for computerised machines in a business where engineering and software account for 50 per cent of added value?

He says there is scope for more manufacturing outside Germany, not simply to escape the high cost base at home, but also to add value in the places where Siemens does business, collaborating with and buying components from customers. "It is not just a question of costs," Mr von Pierer says. "If we want to continue to develop as a global player we cannot simply deal with our customers as importers."

At the same time, he is contending with severe problems in two of his most important divisions: semiconductors and computers. It is no comfort that the semiconductor industry is making losses around the world - the figure is esti-

mated at about DM500m for Siemens. Much the same applies to Siemens Nixdorf (SND), the computer business, which is also losing heavily. Semiconductors are the common components, the thread running through every important business activity in the group. "What is fundamental for me is that we should have the technology for all our products," he says. But the costs are huge, and Siemens, although ranked third in European semiconductor sales, is relatively small in world terms. Collaborations to develop development and manufacturing charges - most recently a link with IBM and Toshiba on the new generation 256-megabit DRAM - help. But the lack of European partners willing to take up the group's open invitation to co-operate obviously chafes.

"Sometimes it is difficult to get across that we are not just doing it for our own needs," he complains. Access to advanced memory chip technology is crucial in markets where manufacturers increasingly seek to tailor product precisely to customers' needs... and also where Japan is on the ascendancy.

Co-operation also figures in his plan for Siemens Nixdorf, the result of an ill-timed and ill-starred marriage of Germany's great computer rivals. But it is still too early to talk about it, he says. "We must first bring our house into order."

Bad luck has undoubtedly influenced the fortunes of a company in the throes of reorganisation just as the computer industry is diving into a severe structural crisis. But the fact that it has taken the best part of two years to flush out old enemies plaguing both sides in the takeover speaks volumes about the cautious German approach to mergers.

Siemens also fumbled the assimilation of the US Rolm



Paul Brown

## PERSONAL FILE

1941 Born Erlangen near Nuremberg.

1969 Siemens legal department.

1977 KWU power station unit.

1988 Commercial director, KWU.

1989 Member of main Siemens board.

1992 Deputy chief executive.

1992 Chief executive, Siemens.

# Why schools may become obsolete

I have often wondered what it must have been like to hear Bernard Shaw speak in the 1880s, before he became famous. Many of his ideas, such as the nationalisation of industry and the creation of a welfare state, must have struck his small London audiences as completely mad. Yet much of what he predicted came to pass within the space of one or two generations. Last week, listening to a sparsely attended lecture at the Cato Institute, a Washington think-tank, I felt a kinship with the Victorians that Shaw so loved to harangue.

The speaker was Mr Lewis Perelman, author of a recently published book, *School's Out: Hyperlearning, the New Technology and the End of Education*. The thesis he expounded with messianic fervour - which proved too outrageous even for his libertarian Cato audience - was that conventional education is obsolete. Putting resources into school reform makes about as much sense as investing in the horse and buggy at the end of the 19th century. Just as the automobile was destined to sweep aside horse-based transport, so "hyperlearning" will sweep aside education as we now understand it.

I am not suggesting that Mr Perelman, a former high school science teacher and planning director for Holiday Inns, is another Shaw. But I do believe his fundamental argument - that technological change is undermining the foundations of conventional education - is worth taking seriously.

Teaching today is immensely labour-intensive. Hundreds of thousands of teachers stand in classrooms delivering almost identical lectures to their students. Yet such techniques are inherently inefficient because the abilities of students vary so enormously - and because the competitive atmosphere of classrooms inhibits many less able students.

With the latest computer technology, a single talented teacher can prepare and deliver a course to an unlimited number of students. Feed-



MICHAEL PROWSE on AMERICA

back loops and programmed instruction can allow students to learn at their own pace, repeating difficult sections as often as necessary. In principle, electronic lessons can move effortlessly between different media: a history course, for example, can move from a "talking head" lecture format to archive text, to film footage of battlefields and finish by playing music composed during the period.

As the cost of electronic gadgetry falls, the savings from eliminating classroom teachers and the physical infrastructure of schools are potentially immense. To give an idea, The Civil War, an acclaimed US television documentary, cost about \$3m to make, or about 10 cents a viewer/learner. To convey the same information to the same number of people through traditional classroom techniques would have cost about \$60m and required the services of all of America's college history professors for more than a year.

A second plank of Mr Perelman's argument is that we can no longer afford to think of education as something we complete in our youth as a preparation for work and citizenship. With skill requirements changing constantly, we all have to accept the need for lifelong learning. Fortunately electronic tools give us the ability to learn what we want, when we want - and in the comfort of our own homes.

The revolution in learning made possible by new technology is being impeded, Mr Perelman argues, by the entrenched power of existing, redundant institutions. He would abolish

all public grants for schools and colleges and give the money directly to families in the form of learning credits or "micro-vouchers". Just as US food stamps can be spent on any kind of food, so educational micro-vouchers could be spent on anything that nurtures the mind, be it distance-learning courses, video cassettes, books or conventional schooling (which would no longer be compulsory).

The second big change he advocates are laws forbidding employers to discriminate on the basis of academic qualifications. Employers would be able to test recruits to determine if they have the skills actually needed for a job, but not to require them to have served time at schools or colleges. Mr Perelman believes that US academic education is already a costly fraud. People pay ludicrous sums for degrees that are of no practical relevance and which no longer even guarantee high-paid employment. If "credentialism" was banned and replaced by tests of actual competence, the whole edifice might come crashing down.

But if conventional schools and colleges vanished, what would happen to young people? Well, some institutions for sports, the arts and social interaction would be needed, but they would not have to involve the regimentation of today's schools. That regimentation was, in any case, largely needed to discipline people for the monotony of a mass production industrial age that is already passing.

The essence of Mr Perelman's argument is that new technology provides the means for a far more economical, flexible and personalised form of education. At heart a utopian, he believes learning is as natural as eating or sex; the trouble is that most people's appetite for it is destroyed by crude and outdated delivery systems. His ideas probably seem outlandish, but remember, few people predict the really big social and economic changes that transform our lives.

*School's Out, William Morris, New York, 1992.*

Heavens above, is the City a zoo?  
Bulls, bears and stags, and now Pelicans too!

**Setlist**

**JOTTER PAD**

**CROSSWORD**  
No.8,010 Set by DANTE

**ACROSS**

- He would be a drawback to the commanding officer (6)
- Duck when beer mugs are thrown around (5)
- Figures they produce light separation (6)
- Light equipment for miner and motorist (5)
- No deviation from working party policies (5)
- Hit out and win outside and inside (6)
- Slippers - or part of 'em? (4)
- Model accommodation written about by Ibsen (6,5)
- Canine tenacity (10)
- Bird droppings? (4)
- Stockings only put out in the north and south (5)
- Supercilious about organ playing skill (5)
- A lovable disposition may be most important (5,3)
- Support in one game or another (5)
- Lay in a foreign drink as a souvenir (5)
- Call attention to 24 hour period of prosperity (3,3)

**DOWN**

- Prevail over island uprising, being efficient (7)
- An indication one wants to avoid any hostility (5,4)
- Stay to check mother in (6)
- American editor briefly employed (4)
- G 00.05 (5)
- Stretch of water (5)
- Cost of stocking the river with birds (7)
- Tell of dramatic happening at polling station (7)
- End of chess or anagram (7)
- To be without an escort is incognito (5)
- Spare property? (5)
- Apocryphal under study in Scandinavia (7)
- Yet it's a misplaced feeling of gratification (7)
- Source material used for study programme (5)
- Dissemble but not tight (5)
- A certain amount of snow dangerous to aircraft (4)

Prices for electricity generated for the purposes of the electricity generating plant in England and Wales, based on the cost of fuel and the cost of capital, as at 1.1.92			
12 hour period	12 hour period	12 hour period	12 hour period
12 hour period	12 hour period	12 hour period	12 hour period
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0100	18.28	17.84	17.84
0200	18.28	17.84	17.84
0300	18.28	17.84	17.84
0400	18.28	17.84	17.84
0500	18.28	17.84	17.84
0600	18.28	17.84	17.84
0700	18.28	17.84	17.84
0800	18.28	17.84	17.84
0900	18.28	17.84	17.84
1000	18.28	17.84	17.84
1100	18.28	17.84	17.84
1200	18.28	17.84	17.84
1300	18.28	17.84	17.84
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1800	18.28	17.84	17.84
1900	18.28	17.84	17.84
2000	18.28	17.84	17.84
2100	18.28	17.84	17.84
2200	18.28	17.84	17.84
2300	18.28	17.84	17.84
2400	18.28	17.84	17.84

# Re-take the refugee test

Euro-sceptics jeer that the European Community has failed the test of the Yugoslav crisis. They say it proves that the far-reaching ambitions of the Maastricht treaty are wildly unrealistic. Europe could not hope to put together a common foreign policy, and might as well abandon the attempt.

Reality will not let us off so lightly. The sceptics seem to be misled by some school-games paradigm: the hopelessly uncoordinated are excused from taking part in the football team. But they should look instead at the pitiless academic discipline of the French *lycée* which admits no such excuse.

The fact that the Community has failed so far does not mean that from now on the Europeans are excused. On the contrary, we are now paying for our failure with a "redoublement": we must re-do the course again and take the exam until we pass.

The problem is that now the exam is much more difficult, and the syllabus has been vastly expanded. At first the military experts told us there was nothing to gain and everything to lose by trying to intervene in this civil war. It would involve very large forces, unpredictable but probably large casualties, an uncertain and probably unrealistic political strategy, and a commitment of indefinite duration. In the face of this kind of dire risk assessment, politicians quail. Unfortunately, they failed adequately to weigh up the costs of not intervening in the crisis.



IAN DAVIDSON ON EUROPE

What we have instead is a massive flood of refugees from the war zone, which is already threatening the political stability of German society, and which will certainly get worse, in Germany or elsewhere. We thought we could stay out of trouble by not getting involved. This was a mistake; the trouble has come to us, in their hundreds of thousands, and we cannot avoid it.

We certainly cannot avoid the flood of refugees by playing cynical and hypocritical bureaucratic games. Refugees claim political asylum because this is their only plausible escape route. So the German political establishment prepares to rewrite the constitution to limit the access of asylum seekers; and the British government sets up new and Kafkaesque obstacles to frustrate them.

If they want asylum in Britain, they must have a visa. However, they cannot secure a visa, because Britain has no consulate in Bosnia; in any case the government will refuse a visa if it is for asylum. But even if the consulate in

Vienna were to grant a visa, the hard men at Heathrow are empowered to cancel it. This is Catch-22 in spades.

So when Mr John Major, the British prime minister, says in parliament: "With the best will in the world, we simply cannot take everyone who, for understandable reasons, wants to leave Yugoslavia," he is adopting a hypocritical posture. The British government is not showing the best will in the world, and probably would prefer to take no Yugoslav refugees at all.

This is not an option, however. All west European countries will take large numbers of unwanted refugees, willy nilly, legally or illegally, because of the scale of the problem. There are already large numbers of illegal immigrants from various parts of the world in all members of the Community, because they cannot in practice be kept out; and the numbers will undoubtedly rise after the easing of internal frontier controls between member states under the single market treaty.

Tighter rules in Germany will be intended to keep more people out; but all land frontiers in Europe are highly permeable, and the German government will be deeply reluctant to incur the shame of mass expulsions. Britain is slightly protected by geography, compared with Germany or France, but only slightly. There is no security in the Channel.

No useful purpose is served by a myopic focus on the legal definition of what is or is not a

refugee. It may be true that most of those who are fleeing the war, the destruction of their homes and the deaths of their relatives, are not "really" refugees under the strict meaning of the term in the 1951 Geneva Convention. But the argument is essentially beside the point. When 500,000 people are already displaced in the rest of Europe and 2m inside ex-Yugoslavia, it is foolish of Western governments to pretend the problem can be made to vanish by being defined out of existence.

In any case, it is not easy to apply asylum laws as rigidly as governments would like. Much less than a tenth of those who seek asylum in Germany or Britain finally secure that status; but in both countries most applicants manage to stay permanently, either legally, on some other grounds, or illegally, by disappearing into the underground.

Trying to halt the war refugees at the frontier is now no longer an option for the rest of Europe. The longer the members of the Community insist on limiting their military intervention in Bosnia to the minimal escort of aid convoys, the more certain it must be that the tide will turn into a flood.

The only way of limiting the flow is to go to the source, and take sufficient military action on the ground to make it slightly more possible for some of the persecuted minorities to continue to live in their own country. Europe cannot avoid responsibility, however much it would prefer to do so.

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday December 5.

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Heil nicht!